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the MANAGEMENT REVIEW

MAY, 1948

AMONG THE FEATURES

A New Concept of Public Relations

Fluff-Doodle Dodoes

Incentives for Office Workers

The Management Communicator

Sounding Employee Opinion

Cutting Indirect Labor Costs

More Facts About Normal Effort

Compensating the Sales Force

Price Guarantees to the Trade

Better Budgeting

Dynamics and Mechanics of Administration

- PERSONNEL
- PRODUCTION
- OFFICE MANAGEMENT
- MARKETING
- FINANCE
- INSURANCE
- PACKAGING
- BOOKS OF THE MONTH

AMERICAN MANAGEMENT ASSOCIATION

Emergence of a New Management Era

25th GENERAL MANAGEMENT CONFERENCE

THE WALDORF-ASTORIA, NEW YORK

• JUNE 9-10, 1948

The American Management Association is pleased to announce its 25th Annual General Management Conference, and to extend an invitation to attend this Conference to all AMA members. The sessions will comprise a significant review of managerial development, with particular attention to important and critical problems of top management today.

The Conference will include the Annual Business Meeting, to which all members of the Association are also invited. This will feature the recommendations of the Nominating Committee for Directors to take the place of those whose terms expire, followed by the election of Directors and a report from the President on the business affairs of AMA, with discussion.

To non-members who read this announcement, AMA regrets to say that the Conference will be restricted to members of the Association. The decision to follow this policy in connection with all AMA conferences has been reached by the Association's Board of Directors, in view of the fact that many of the Association's conferences have been overcrowded by the attendance of non-members.

Principal Subjects of Discussion:

A BACKWARD GLANCE IN LABOR RELATIONS

A "NEW LOOK" FOR MANAGEMENT
THE SIGNIFICANCE OF
PRODUCTIVITY

EXECUTIVE INCENTIVES

ORGANIZATION AS THE MECHANISM
OF MANAGEMENT
OPENING A NEW MANAGEMENT ERA
ADEQUATE FINANCIAL REPORTING
SOURCES OF NEW CAPITAL
ORGANIZATION CONTROLS IN
INDUSTRY

*The 25th Anniversary Banquet will take place on
Wednesday evening, June 9*

AMERICAN MANAGEMENT ASSOCIATION
330 WEST 42nd STREET • NEW YORK 18, N. Y.

James O. Rice, *Editor*; M. J. Doohar, *Managing Editor*; Alice Smith, *Research Editor*;
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The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

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the MANAGEMENT REVIEW

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MAY, 1948

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GENERAL MANAGEMENT...

A New Concept of Public Relations

A MERICAN business needs a new concept of public relations.

Public relations is not free space in newspapers and magazines, or free time on the radio. It is not a green pasture for broken-down writers, whether they have newspaper experience or not. It is not a convenient niche into which problem children of the management staff can be kicked upstairs. Nor is it a means of soft-soaping the workforce or the community into believing company policies are benevolent when it is discernible that all hell is about to break loose. Such stereotypes of the public relations function are obviously out of tune with the needs of business today. They rank with the oft-repeated cliché that public relations is the art of doing good and getting credit for it.

This is a time of grave decisions. American business is being tested as it has never been tested before. Every basic policy of business, every important decision and act, is being put under the microscope, not only in this country but throughout the world. Business is the core of the American enterprise system. If business fails to hold the confidence of the people, the entire American way will be endangered and world turmoil will be increased.

The responsibility of American business is not alone to make profits; the time has come when it must plan and work for its own survival. Today business must be operated in the public interest. Management must believe deeply in private enterprise, and work intelligently and hard for its preserva-

tion. It must make democracy and individual freedom its objectives in the community as well as in the plant.

In this climate, the public relations specialist must be more than a technician, or a communications expert who carries out the decisions of others: he must help to shape policies. The crying demand in business is for an integrating function which cuts across narrow self-interests and short-range goals. The modern public relations specialist provides such perspective, influences basic policy, and takes responsibility for social consequences as well as for technical achievements.

The first objective of public relations must be to take America as its client, to study trends at home and abroad that threaten peace, and to search for ideas and methods that will foster peace and security. To put it another way, public relations should become the G2, or intelligence division, of business. Just as sound strategy dictates that military intelligence provide the general staff with a basis for resultful choices, so good public relations starts by providing management with a rich background for sound decisions. This includes not only intelligence in the field of economics, but extends to political trends, shifts in public opinion, military changes, and developments in the social sciences that can implement management skills.

The second objective of the public relations staff must be to serve as policy advisers to management. The strength of American business depends on two

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factors—specialization and competition. Politically, the opportunities for despotism are greatly lessened when many bosses are making the decisions that directly or ultimately affect the total welfare. Yet this is the great weakness of the American system. Where there are many bosses, policies are created out of many philosophies and many backgrounds. The only method by which unity can be achieved out of this diversity is through integrating all the relevant facts and then coming to decisions on the basis of them.

However, the public relations specialist is seldom the sole decision-maker. In such cases, his responsibility is to utilize his knowledge in advising others. In passing, it must be observed, with great concern, that business has not yet formulated even the crudest theories of advice.

The third objective of public relations must be to encourage advances in the science of communication. As a skill group, public relations specialists have much to gain from increased knowledge of what changes can be induced, through various means of communication, and under what specified circumstances. Only the crudest beginnings have been made in this area of knowledge; much, very much, still remains to be done.

The public relations specialist should be the master of all mediums of communication. He must be equipped to carry out his plans and the plans of management by the most appropriate and economical means.

The fourth objective of public relations lies in the more complete utilization of the findings and techniques developed in the psychological and social sciences. We are all interdependent.

Each of us produces only a small part of what he consumes. Each of us performs only a small part of the services he enjoys. In recent years, more has been learned about people and their interdependence, as well as the human factors on which the survival of business depends, than had been learned in the previous 150 years of the industrial revolution. We should apply more of what is already known. Public relations should be marching in the front ranks with those who understand human engineering and helping them promote and apply it.

The fifth objective of public relations must be to increase the faith of our people in the American system of private decision and individual enterprise. This cannot be done by slogans and hard-driving advertisements; it can only be done through performance. The loss of public confidence after 1929 alarmed all thinking business men. There is serious doubt whether in the face of world conditions our system can survive another such shock. Business men must continue to believe that American enterprise can do a better job of providing employment, banishing insecurity, elevating the standard of living, and providing an economic basis of freedom than any other system. And they must constantly invent and perfect methods of attaining these goals.

These are the bare essentials for a new and realistic concept of public relations. Only within this basic framework does the public relations skill group have a chance to achieve professionalization.

From an address by Leo Nejelski at the Boston University Founder's Day Institute.

• FEW MEN during their lifetime come anywhere near exhausting the resources dwelling within them. There are deep wells of strength that are never used.

—RICHARD E. BYRD (as quoted in *The Advertiser's Digest* 4/48)

Mr. Public Weighs Taft-Hartley

DO workers or the public accept the claim that the Taft-Hartley Act is a "slave labor" law, designed to destroy unions? Or do they go along with the Act's supporters, believe it will contribute importantly to labor-management peace? Does the public think the Taft-Hartley Act is a "good" or a "bad" law?

Modern Industry, in cooperation with the Ross Federal Research Corporation, conducted a survey to find out. Some of the survey findings are presented below.

Today, two people in three have read or heard something about the new labor law. People were asked: "Congress recently passed a law called the Taft-Hartley Act. Have you heard or read anything about this law?" Of those surveyed: 66 per cent know of the law; 27 per cent do not; 7 per cent are not sure.

The idea that the net effect of the Taft-Hartley Act is, or will be, "good," is accepted as plausible by more people than take the opposite view—among the 66 per cent of the respondents who have read or heard of the measure.

Two people in three do *not* believe the Taft-Hartley Act is a "slave labor" law designed to destroy unions.

Three in five do *not* believe the Act makes all strikes illegal.

Almost three in five do *not* believe the measure takes away most of what the workman gained under the New Deal.

Almost half (the "don't knows" are a fairly large proportion) believe the Taft-Hartley Act gives the worker more protection than he had before.

Almost half *believe* the Act will get the Communists out of labor-union leadership.

Two in five *believe* the new law is a much better law than the Wagner Act it replaces.

On these issues, the only *majority* votes recorded are those in disagreement with the propaganda labels advanced by opponents of the law.

What the public is telling those who cry "slave labor" is: "Oh, come now, fellows, you don't expect us to swallow *that*, do you?" The popular verdict is that such a thing is just not plausible.

The findings do not indicate, however, that the public will have any patience with management if it tries to use its new favorable status to impose unfair conditions on its employees. Similarly, business-baiting labor leaders can expect little public sympathy. The public wants—and expects—labor peace, and shows a distinct inclination to be fed up with extremes on either side.

—*Modern Industry* 2/15/48

Are New Jobs Scarcer?

JOBs are not easy to get, in the opinion of workers throughout the country. Of the wage earners queried in a recent poll of the nationwide Wage Earner Forum, conducted by Macfadden Publications, Inc., 53 per cent said it would be hard for them to get new jobs, 26.4 per cent said it would be easy, while 20 per cent were uncertain.

It is interesting to note that 56 per cent of union members felt it would be hard to get a new job, as against 48.5 per cent of those who are not union members. Those who feel it would be easy to get new employment are more numerous in the middle and western states, less numerous in the northeastern and southern states.

• "PLAIN TALK is just as hard to find as good, old-fashioned bread. There is only one difference: you can walk into any store today and buy 'enriched' bread whose vitamins have been scientifically restored; but if you want to restore the vitamins to your language, you have to get down to work and learn how to do it yourself."

—RUDOLF FLESCH in *The Art of Plain Talk*

Fluff-Doodle Dodoes in Business

JAMES F. BELL, who has just turned in his resignation as board chairman of General Mills, recently said that a board chairman's position is an anomalous one. He says it may be purely honorary—the reward to some superannuated, old fluff-doodle dodo who has been kicked up the back stairs to get him out of the way.

A fluff-doodle dodo, if we understand the term correctly, does not need to be ancient in years; only his ideas and mental processes are encrusted with age and barnacles. It is amazing how many young men think and act like fluff-doodle dodoes. In fact, the board chairman's office is not the only one which may be burdened with one. The natural habitat of the fluff-doodle dodo is in every type of office in industry. He may be found nesting and resting in the board chairman's office, in the president's office, in a vice president's office, or in the office of almost any department management job.

Now suppose we look at a few fluff-doodle dodoes. There is the fluff-doodle board chairman. Years ago he was a ball of fire. But about the time he began to draw \$10,000 a year, he put his brain out to pasture, retired from contact with ordinary men, ceased to see or talk with the kind of people who buy his company's product. He joined famous clubs—one in town and one in the country. Thereafter, he never had time to chat with anybody beneath the level of a club member.

Club members, of course, are splendid people. But some of them seem to have lost contact with the world in general and spend most of their time bemoaning that office workers no longer will work until midnight without pay

during the busy season. They also spend much time reminding anybody who will listen that office boys were paid \$2 a week when they started in business. To put it plainly, some of the club members with whom our fluff-doodle dodo has most of his human contacts are living in an era which is gone and not lamented.

Such a fluff-doodle board chairman can create a lot of trouble in any organization where he still can throw his weight around. He doesn't believe in advertising, in modern public relations, or in modern tools and equipment. He belongs to the steel-pen era of accounting, and thinks that any accounts receivable not kept in a big bound volume are in imminent danger of being lost.

He has a lot of other quaint ideas, too. He shuts himself in his private office and has a secretary cross-question every visitor who attempts to invade his privacy. Anybody below the position of bank chairman is turned away from his door with scant ceremony. He knows little about what is going on in his own business; yet he never hesitates to veto, where possible, any progressive move the younger officers in the company attempt to effectuate. He is an unhappy man, because the only contacts he has are with other people who have been predicting imminent catastrophe for the world since about 1912.

At the presidential level, fluff-doodle dodoes are rare, but they do exist. The presidential fluff-doodle dodo is the fellow who starts every letter with, "My attention has been called to . . ."—and then proceeds to tell somebody he is wrong. He never discovers anything

himself. His attention must be "called to" everything.

He expects advertising to be written in legalistic phrases which sound as if the company lawyer were doubling in brass as the copywriter. He wants everything to be dignified, solemn, and strictly according to precedent. Every time he vetoes an idea, he says: "We don't want to set a precedent," and that ends the discussion. Once a year, he writes a letter to the employees for the company magazine. It begins: "To All Employees: My attention has been called to an unfortunate trend in thinking today which threatens the very foundations of free enterprise." Then he goes on to remind the employees that they are not producing, that they are wasteful, that they do not bend their energies or put their shoulders to the wheel as people did when he was in the ranks. He "looks with grave apprehension at the rising tide of radicalism which is sweeping the world."

Now let us consider the fluff-doodle dodo at the level of vice president. He may be a fellow who married the very unattractive daughter of a prominent stockholder in the company. Or he may be a fellow who just happened to move in the right circles and got a job as vice president because somebody higher up thought he had "sound ideas." As a matter of fact, he has not had an idea in 20 years. During the war, the company shipped him off to Washington to serve on an industry committee, and there he learned a lot of government gobbledegook. His conversation goes like this:

"I would like to call a meeting to consider the extremely important matter of consolidating and coordinating our over-all policies with reference to the

problem of orientation of new employees."

When he calls the meeting, he makes a long speech, referring to the problem in such general terms that no one knows what he is talking about.

Saddest case of all is the fluff-doodle dodo at the department manager level. He wants to be a vice president, so he tries to act like a vice president. The poor dope! If he would just be himself, he might not be a bad person, but his presidential airs annoy everybody. He insists that all communications be in writing. He is a great inter-office memorandum writer. Much of his time is spent in preparing inter-office memoranda with which he bombards other department managers.

Everything he says is just an echo of something he heard at a speech or a meeting, or read in a Washington report. His letters reek with such bromides as "Please be advised" or "Kindly note that we wish this matter expedited." He is always telling somebody else to expedite something, but ask him for a decision on even the simplest matter, and he answers: "The situation warrants a thorough exploration from all levels, and we will require additional time for considerations and investigation before our decision can be final."

Well, why prolong the agony? The fluff-doodle dodoes exist at all levels of business, in nearly every department, and are often found in charge of important operations. They hamper business, reject progressive ideas, prevent aggressive men from doing things the simple, easy way.

American Business, December, 1947, p. 28:2.

Trends in Community Relations

INDUSTRY'S community relations programs for 1948 will generally follow last year's pattern; but top management is taking "a more active part in the programs, and practices which experience has shown to be most successful are being amplified." These are the main trends that emerge from a recent survey of business practices conducted by the Conference Board.

Major changes in programs are reported by only about 10 per cent of the cooperating companies. A few companies, because of their location in large cities and the small proportion their employees represent of the total community, see "little to be gained" by active community relations programs. For other firms, the programs range from those which are broad in scope and defined in detail to those which are conducted more or less informally by management. Plants in small towns are generally more active in their communities than are those in the larger cities.

Local news releases are the most common method of informing the community about the company. Two out of three of the respondent companies follow this procedure. Over half the respondents hold open house on occasion and conduct employee education programs. Plant-city advertising and community mailings are made by approximately one out of three. Only one in four concerns finds cooperative radio programs practical. A few companies employ all these approaches.

Community-relations program leadership is "almost invariably" a top management responsibility. About half the companies assign it to individual officers; the others consider it to be a management function best handled by the coordinated efforts of several key men, such as the president, the director of public relations, the general manager, the manager of industrial relations, the advertising director, and the local plant managers in companies with decentralized operations. Many companies state that their ranking plant officials in the field have full responsibility for their community relations program, subject only to the broad policy limits established by top management.

—Advertising News Letter (U. S. Chamber of Commerce) 3/48



"All his mail comes back except his
pay checks!"

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OFFICE MANAGEMENT...

Incentive Compensation in the Office

DURING the last 25 years or more, many systems have been developed for incentive determination for productive manufacturing operations. The controls for indirect labor have not been given the same attention, however, and standards of performance for these are not so systematically established as are those for productive operations. Yet sound clerical incentives can be established; they have been established in the past and are being set today in many companies. Though the principles are not universally understood, they are straightforward and practical.

Incentive plans have been most effective where the participants have been able to see the direct results of their applied efforts. The measure of performance should be clear to them; they should be able to calculate their accomplishments. It is also desirable that they be able to compute their approximate earnings. If the incentive plan is too complicated, they will distrust it.

An incentive plan for clerical operations must be tailored to fit each particular application. A plan successful in one office may not be applicable to another.

When the relationships and procedures have been determined, they should be prepared in written form and issued to those who will administer the incentive plan. It is not sufficient to deal in general principles; procedures should be prepared in detail.

Before an incentive plan is put into operation, all members of the clerical

force who have any part in its administration should thoroughly understand it. Moreover, management should be certain the participants and the supervisors believe in incentives. An incentive plan is not likely to be successful unless the clerical force and supervisors wish to have it succeed.

The first problem is to secure men qualified to develop and fit the plan to the particular application. The second step is to make the installation; this may be done either by the same men who developed the plan or their understudies and men supervised by them. The third step is to train the supervisors to administer the plan properly once it has been installed.

It is particularly important that the right type of personnel be selected for training for the installation of clerical incentive systems. There has been a tendency on the part of office supervisors to select men who have had experience with incentive administration in manufacturing departments. This practice may or may not be successful. It is true that many of the fundamental principles of establishing incentives in the manufacturing departments apply to incentive determination for clerical work. The latter assignment, however, requires a particularly analytical type of mind, capable of evaluating functional relationships of departments, understanding organizational lines, organizing operations and establishing their proper sequence. An individual capable of establishing incentives on rou-

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tine machine work would not necessarily have these qualifications. The method of selection may vary with the particular office, but there are some fundamentals which apply in all cases. The formal education should be technical or semi-technical. A sound basis for the analysis of the individual's capabilities might be obtained from a well-planned series of aptitude tests. Practical knowledge of office procedures and an understanding of the company organization are of major importance.

A prerequisite for the training of qualified personnel for the establishment of performance standards and the administration of a clerical incentive plan is a good practical education. The education may be in several fields which would develop analytical abilities; for example: engineering, accounting and business administration. The specific training should be in the fields of: (1) analysis of operation; (2) study of office equipment; (3) principles of motion economy; (4) relation of departments, their functions, and the flow of work; (5) study of technique of breaking down operations into their fundamental elements; (6) procedure for evaluating performances of individuals studied; (7) methods of timing those elements; (8) procedures for administering a clerical incentive plan; (9) policies of the company which have to do with incentives and employees.

This training may be done in classroom sessions, lectures with visual aids, and by demonstration with work projects which illustrate the text material presented. The actual amount of time required for training is determined by the types of clerical functions involved and the previous experience and education of the men to be trained. To qualify men fully for this work would prob-

ably require about 2,000 classroom and demonstration hours. Only one fully qualified man would be required for each plant or company.

A prerequisite to the setting of performance standards on clerical operations is thorough analysis of all work performed by the proposed participants; also, thorough knowledge of the relation of this work to other clerical functions. A systematic analysis involves the charting out of many of these operations in detail. Flow process charts similar to those used by the manufacturing organizations are found useful.

It is necessary to determine the relationship between departments, the work requirements, and the sequence of operations which must be followed. Much of this analysis can be made by means of process charts.

Performance standards may be expressed in any measure of performance which fits the particular case. Some typical measures might be:

Orders handled; information typed (a. strokes of typewriter [meter counts]; b. documents typed and handled); letters written; literature prepared for sales distribution; preparation of sales samples; mailing and shipping; checking; invoices typed and priced; orders interpreted; documents sorted; filing; making machine calculations and extensions.

When performance standards are being established, all foreign operations are eliminated. Standard allowances should be made for a reasonable number of unavoidable delays, for personal needs, and for fatigue. These should prove adequate under average conditions, but they make no provision for abnormalities and irregularities beyond average conditions. In order to treat the participants fairly, it is necessary to compensate for these conditions by additional allowances in amount just sufficient to offset the irregularities.

Incentive workers will give neither uncontrolled effort nor unrestricted performance, unless they feel that performance standards have a guarantee of permanency. The participants should be given a clear statement of policy regarding the methods of establishing standards and assurance that standards will not be changed unless there is a significant change in the conditions which affect them.

Management should be in a position, at any time, to review with the employees affected the studies and data by which standards are established. For each installation of a clerical incentive plan, there should be a complete description of the plan with all details regarding its installation and the establishment of performance standards. If time studies are taken, they should be legible, well-organized and catalogued as to their relation to the standards. The following are also required:

1. A clear statement of all conditions which affect the standards.
2. A comprehensive definition of the work to be performed.
3. A listing of all the related departments and their influence.
4. A specification of quality of work

expected and dates which must be met.

To obtain harmony and good performance under an incentive system, work should be dispatched in an absolutely impartial manner. The participants in the plan soon learn to consider some jobs good and some poor. This does not cause any serious trouble, so long as the participants feel that the work is assigned so that neither discrimination nor partiality is shown.

The system should provide for accurate accounting of all work performed. Approvals should indicate that the work was performed in an acceptable manner and in the amount indicated. If it be necessary to accept the participants' word for the amount of work performed (as often happens on some clerical operations), an audit should be made periodically by a disinterested party authorized to do auditing work.

To obtain the greatest benefit from an incentive system, the participants should exceed the standard performance. Thus, they receive additional compensation while the office obtains a greater output.

By G. Z. WOLLAM. *NOMA Forum*, March, 1948, p. 26:6.

How to Speed Office Mail Deliveries

TWO ideas for speeding delivery of inter-office mail were recently put into effect at the York Company. It was found that, because of the rapid turnover in the mail department, considerable time was spent in training the necessary replacements. To cut down the training period, a name-plate was affixed to each mail tray, thus making it easier for the mail-carrier to learn the route.

It was also found that the double-decker mail box was a source of confusion, as in some cases incoming mail was the top box, and in others it was the bottom. The mail boxes were made uniform throughout the plant, thus not only shortening the training period but also averting the possibility of loss of important mail.

—*Supervision* 3/48

Salaries of Clerical Workers in New York

WOMEN general stenographers averaged \$43.37 per week in New York City, according to a summary report released by the New York Regional Director of the Bureau of Labor Statistics. The report, based on a survey of 884 representative establishments, presents average salary data for January-February, 1948, for 23 clerical occupations employing women and 18 employing men.

Salaries for women ranged from \$30.56 for office girls to \$55.11 for hand bookkeepers. In 17 of the 23 jobs, women's salaries averaged higher than \$40. In 13 of these, the averages were between \$40 and \$45.

Average weekly salaries for men ranged from \$30.52 for office boys to \$64.43 for hand bookkeepers. Men in only four occupations averaged below \$40. In five jobs, the men's salaries averaged between \$45 and \$50; while seven were higher than \$50.

Women general stenographers averaged \$46.66 in manufacturing central and administrative offices and \$41.53 in retail trade; the average salaries among the other five broad industry groups fell within that relatively narrow range. The general levels of salaries for women clerk-typists also varied but slightly among the industry groups. The lowest average of \$34.77 in retail trade was approximately \$5 below the highest, \$39.84, in services, with the city-wide average amounting to \$37.52.

Women in White-Collar Jobs

WHITE-COLLAR occupations are attracting more and more of the nation's women workers. The Women's Bureau of the U. S. Department of Labor reports that in April, 1947, about 734 million women occupied white-collar jobs. This number accounted for about half the total number of employed women and, as compared with 1940, represented a larger proportion of all women workers and also of all white-collar workers.

A little over half the women white-collar workers are employed in clerical occupations; some are proprietors, managers, or executives; and the rest are divided about evenly between sales and professional positions.

Facts on the earnings of some white-collar women workers—those in office occupations in selected manufacturing industries—recently were compiled by the Women's Bureau on the basis of data collected from employers by the Bureau of Labor Statistics. Among the facts revealed were these:

In 15 manufacturing industries in 1946, women clerk-typists and general clerks were found to average 78 cents an hour; stenographers (Grade A), 99 cents; and stenographers (Grade B), 85 cents. Hand bookkeepers had the highest earnings, \$1.08 an hour; and file clerks (Grade B), the lowest, 71 cents an hour.

"Earnings of men in office occupations in these establishments have not been summarized as a whole, but examination of selected occupations in a few industries shows the familiar story that men are earning more than women," the Women's Bureau said. "These differences in earnings do not in themselves indicate that the principle of equal pay is not applied, but they do indicate either that men are assigned to more skilled and higher-paying jobs than women, or that men do get higher pay than women for jobs that are alike, or that both conditions prevail."

Among office workers in the machinery industry, male general clerks averaged \$1.03 an hour, as against 80 cents for women; male payroll clerks averaged \$1.11 an hour, against 92 cents for women; and male hand bookkeepers, the highest-paid occupation, averaged \$1.29 as contrasted with \$1.12 for women.

—Labor Information Bulletin 12/47

• **UNSKILLED WORKERS**, including farm hands, industrial workers and domestic servants, numbered less than 14 million out of the 52 million persons in the United States labor force in 1940, says a Twentieth Century Fund report. This was less than 26 per cent of the total, against 36 per cent in 1910.

PERSONNEL...

The Management Communicator

By **GEORGE W. TORRENCE**
Labor Relations Manager
Caterpillar Tractor Co.

GEORGE KRAMER was a foreman in a distant part of the foundry. But he might as well have been working in the front office, because he was always aware of everything that was important.

It was a few minutes past two in the afternoon. Kramer had his work in good shape, so he went to a nearby telephone and dialed a confidential number. He then listened. The company's controller told him of some figures that were being released simultaneously to the stock exchanges—sales and profits for the previous month, how they compared with a year ago, and what those figures really meant. Finally, Kramer replaced the receiver and returned to work.

At approximately the same time the next day Kramer again went to the telephone, dialed his confidential number. This time he heard the labor relations manager, who at that moment was in an important meeting with representatives of the union. The labor relations manager revealed that at a meeting starting at 1:30 that day the company was making a number of proposals. These proposals were then outlined. Shortly thereafter Kramer described the proposals to several employees who had come to rely upon Kramer for up-to-the-minute information.

Shortly after reporting for work on the third day, Kramer noticed a spe-

cial signal on the call lights. This meant that there was something urgent. So as quickly as possible Kramer got to a telephone. He was told that a freak storm had just struck some 10 miles south of the plant, that the damage was heavy. It was suggested that if any employees under his supervision lived in that area they should be informed of the disaster immediately and permitted to leave if they wished. Kramer had one employee who lived there. Without losing a moment Kramer gave him the information, and the employee quickly left for home. Next day this worker expressed his heartfelt thanks. His family had been terror-stricken, though not injured. His quick return home had brought desperately needed comfort to his wife and three children.

George Kramer isn't a real name. But Kramer is representative of the some 1,600 members of management who, at Caterpillar Tractor Co., are daily informed of all important developments.

About 10 years ago the problem was recognized. At that time, employment had reached about 13,000 and the management group had grown proportionately. Communication within management was becoming increasingly difficult. Somehow, in some way, the members of management had to be kept better informed.

The problem was given intensive study and a great deal of progress made. Attention was first devoted to written messages. The most efficient duplicators were purchased and operated by skilled personnel. A mailing list was established for all members of management, and the list converted to addressograph plates. Then the mail service was speeded up to the greatest extent possible. Through this process every effort was made to inform members of management. But the process was slow. By the time a letter was written, proofread, mailed, and received, two days had usually elapsed. Not only that, but many matters of interest were, in themselves, not of sufficient importance to warrant a letter.

Management meetings were also stepped up. It was found that all members of management could be brought together within a 24-hour period. However, this required seven meetings in all—three for the day shift, two for the evening shift, and two for the night shift. Every member of supervision could not attend a meeting at the same time, and it was felt that meetings should be held during working hours. The "round-the-clock" meetings proved of great value, but here again there were practical limitations. Such meetings, by necessity, had to be infrequent. Among other reasons, they were a terrific strain on those who led them. Most important, there were many developments of considerable interest which were still of insufficient importance to warrant a "round-the-clock" meeting.

Personal contact has always been recognized as most important. It would be fine if executives could spend a great deal of time in the shop absorbing and giving out information. But this just can't be done. These men are already too heavily burdened. Even

if they weren't, it would take them months to make a personal tour around the plant, talking to all members of management.

So it became increasingly clear that additional means of communication were needed—not to take the place of, but to supplement, the means already available. One of the things which nailed down this conclusion was the fact that employees were receiving information about changes in company policies, etc., from union representatives (who acquired the information at frequent union-management meetings), instead of from their own supervisors.

The problem was clear but the solution difficult. In the meantime employment had increased and the management group had grown to over 1,500. For several years all conceivable means of communication were pondered. Finally, an idea struck. It was discussed and developed. Then an order was placed with the telephone company for installation of the needed equipment. It took nearly two years for the installation to be engineered and for the needed instruments to be manufactured.

Fundamentally, the installation is simple. It is a tape recorder connected to the telephone system. This recorder has a revolving tape that contains a one-minute message. All members of management are given a confidential number which, when dialed, connects them with the recorder. Thirty calls can be handled simultaneously, which means that the system's maximum is 1,800 calls an hour.

Each day at 11:00 a.m. a new message is released. This hour was selected for at least two good reasons: (1) Each morning there would be time to determine if there were any developments of timely or urgent importance, in which event the information could be

prepared and released at eleven; and (2) the burden on the phone system dropped sharply at 11:00 a.m., when many started for lunch, thus diminishing the possibility that the system would be overloaded during the first hour.

A method has also been developed for the release of urgent information. The plant was already equipped with call lights. A special flickering of these call lights was arranged to tell members of management that an urgent or new message was on the system, and as soon as convenient they should dial the confidential number.

The entire system is operated by remote control from an office. There is a control box with several buttons, and a microphone to plug in. Recording is not difficult. The microphone is simply plugged in, and the message read into the microphone. A button is then pushed, and the recording can be played back immediately through a monitor which prevents any other phones from cutting in at the same time. If the recitation wasn't perfect—if a word or two was garbled—it can be immediately erased and the whole process repeated.

Messages are always recorded from the "horse's mouth." If the message is about sales, it is recorded by the sales manager; if it's about finances, by the controller or a vice president; if it's about the factory, by a factory manager. Messages are factual and interesting—not pep talks or sermons. Occasionally a little humor is injected. New members of management are congratulated, and those who retire are extended best wishes. When a foreign dealer visits the plant, he may be recorded, with his accent, and with an interesting story about faraway lands. The possibilities are limitless.

One minute may not seem long, but much can be said in this interval—between 150 and 200 words. Experience has proved that almost all messages can be "boiled down" to less than 60 seconds. And when this happens, the message is "meaty" and interesting. Also, 60 seconds of intensive listening would seem to be the practical limit. However, it would be feasible, if necessary, to install recording devices which could carry messages of any length, up to several hours.

Workers Favor Union Shop in NLRB Elections

BY an overwhelming majority, employees eligible to vote favored union-shop agreements in 660 of the 664 union-shop authorization polls conducted by the National Labor Relations Board from August 22 to December 31, 1947.

In only three polls taken did a majority of employees fail to vote in favor of inclusion of a union-shop provision in collective bargaining contracts. In 391 elections, a union-shop provision was favored for AFL unions, 74 favored such provisions for CIO unions, 172 for the International Association of Machinists, and 24 for other unions.

On the question, "Do you wish to authorize the union named below to enter into an agreement with your employer which requires membership in such union as a condition of continued employment?", 85,118 workers, or 95.4 per cent of the 89,244 who voted, answered in the affirmative. Since 100,060 persons were eligible to vote, affirmative votes on the proposition amounted to 85.1 per cent of the total.

The number of petitions filed by unions with the National Labor Relations Board for union-shop elections has been increasing steadily. From August 22 to September 30, 10 petitions were filed. During October, 139 petitions were filed; in November, 600; and during December, 1,345.

—Labor Information Bulletin 3/48

Incentive Plan for Learners Reduces Turnover

EXCESSIVE labor turnover is one of the major headaches in industry today. This problem at the Maiden Form Brassiere Company, Inc., is further complicated by the fact that it requires four months or more to train a learner to become a fairly proficient sewing machine operator. As a result, many new employees tend to become discouraged after a few weeks of initial training and leave the company. It costs \$200 or more to break in a learner, an investment which represents a total loss if a new employee leaves after weeks of basic training. To solve the problem, the management installed an incentive plan which pays learners for output over standard, thus encouraging them to stay.

To develop the plan, data on output and learning time were gathered for several years. Learning curves were established on the basis of over 500 case studies. To simplify the program, it was necessary to classify hundreds of sewing machine operations into four groups, based upon the length of time it takes an average learner to become proficient.

A control chart was set up which establishes a separate production quota in each week of the learning period. If the learner meets the quota, she is paid for 100 per cent operation. If she fails to meet the quota, she is paid her guaranteed minimum. If she exceeds her quota by one or more weeks, she is paid 100 per cent plus 5 per cent for each week by which the quota is exceeded up to 125 per cent. For instance, if her quota in the fifth week is 70 but in that week she produces 95—the quota for the eighth week—she has exceeded her quota by three weeks and is therefore paid 115 per cent.

The latter phase of the plan was developed after it was found that some operators were capable of exceeding quotas but lacked incentive to do so.

—KURT A. METZGER in *Factory Management and Maintenance* 2/48

Union Pact Circumvent Taft-Hartley Act

NEVER at a loss for a loophole, left-wing labor has found a way to circumvent the Taft-Hartley Law requirement that union officers file anti-Communist affidavits if they are to be eligible to use the facilities of the National Labor Relations Board. The particular technique is for top officials to resign or take lesser jobs and put up puppets in their place. Thus, while the left-wingers still pull the strings, the dummy officers, none of them avowed Communists, register with the Department of Labor. In one case where a company appealed to the NLRB to stop such a tactic on the part of a left-wing outfit, the Board ruled that it was not going to question the validity of any anti-Red registrations. It did, however, offer a solution. It suggested that the employer go to the FBI which has authority to investigate such matters.

Other loopholes are revealed by a *Mill & Factory* survey of union contracts signed since passage of the Taft-Hartley Act. In this survey it was found that over 20 per cent of the new union pacts contain provisions which circumvent the Taft-Hartley ban on the closed shop. Some samples:

1. New employees shall acquire permanent seniority status only after they have been "approved" by the union.
2. The union has the right to "recommend" the dismissal of employees.
3. No new employee shall be hired who has not lived in the local community for five years.
4. Union men shall have the right to refuse to work with non-union employees.
5. The employer, before hiring new employees, shall "inform" the union of the opening, and the company shall give first preference to those sent from the union hiring hall.

—LAWRENCE STRESSIN in *Mill & Factory* 4/48

• A TWENTIETH CENTURY FUND report says that 15 cents out of every prewar dollar spent by the American consumer for retail goods, or more than half the retailers' average markup, covered wages and salaries.

21 Steps for Obtaining Opinions and Facts from Employees

EMployee attitude and moral surveys received great impetus from World War II and subsequent labor unrest. And now the Taft-Hartley legislation is serving as an added stimulant. However, not enough is being done today to establish more frequent and effective two-way communication between management and the employee through such surveys. Too many companies that sorely need this exchange of thought and opinion are doing little or nothing to achieve it.

To insure sound employee-employer relations, management must get the facts about conditions and must immediately take constructive steps based on the data obtained.

Presented here is one company's prescription for achieving these results, as revealed by a recent *Printers' Ink* study on employee-employer communications. The company concerned is in Ohio. It has about 2,000 employees, men and women. Its reputation is good—and *apparently it had no serious employee problems*. The survey was made to provide an over-all check and a complete breakdown of departmental and personnel elements. The prescription is typical of a survey that seeks to establish and maintain two-way employee-employer communication:

In the pre-survey period:

1. Determine the broad objectives. This should be done by those in top management most concerned and the survey director.

2. Select the executive and supervisory personnel that will provide background for the survey. In this particular company, all 18 department heads were chosen, informed about the survey, and asked to keep it confidential.

3. Tour the plant to obtain an impression of working conditions and employee attitudes.

4. Interview the personnel providing background information. Confidential discussions, 15 or 20 minutes to an hour long, should be had by the survey director with each individual. A pitfall to avoid here is plant politics. The more independence the survey director has, the better he can disregard this factor.

5. Consolidate and summarize the background information.

6. Draft the questions. Take care to facilitate answering. Offer a varying choice of answers—three to five answers, for example:

Q. Do you like your job here?

A. (1) No, I do not; (2) I am not quite satisfied with it; (3) I like it fairly well; (4) I am very well satisfied.

Select simple words, and use common, everyday phrases. Provide plenty of room for comment (essay-type), emphasizing the need for employee suggestions and criticisms. Stress that no questionnaire should be signed; that management will not see the individual questionnaires. Compose a simple list of instructions for answering the survey. Tell the employees, in print, the reason for the survey. Inform them that they will be apprised of the results.

7. Check the questionnaire with a key management committee. Included in this group should be the general manager, production chief, industrial or personnel relations head, sales manager, advertising manager, and the public relations director.

8. Prevent information leakage by sending the questionnaire out of town for printing. This is not to hide from

employees that a survey is to be made—but to prevent unnecessary, unfounded speculation and rumor about its content and purpose.

9. Schedule employee groups for surveying. All department and supervisory heads should participate in this, as the survey should be conducted with the least possible interference with production. Some companies conduct such research after working hours, paying employees for their overtime—a goodwill gesture in itself. (An hour is plenty of time for a 50-70-word question survey that includes comments by employees.)

10. Tell the employees about the survey 24 hours before it starts. A letter from the head of the company, placed on the bulletin boards and read by supervisory personnel is a good device.

During the survey period:

11. Survey all employees. The morale-building factor here is tremendously important. Each employee, in secret, can tell management just what he thinks and wants.

12. Provide an adequate survey room. It must be quiet and comfortable.

13. Complete the survey quickly. In some companies, the groups are scheduled around the clock, one right after the other (if there is a night shift).

14. Sell the survey to the employees. They must be convinced that it is secret, and that management is sincere. It should be made clear that something will be done as a result of the survey.

15. Read and explain the survey questions. Identify top management, immediate supervisor or boss, and similar individuals. Name these persons. Invite questions. Ask for written comments.

16. Provide two or three ballot

boxes as questionnaire depositories. This dramatic device emphasizes the secrecy aspect.

17. Check the survey results for ideas and suggestions that can be put into effect immediately. The purpose is threefold: (1) to demonstrate the sincerity of management, (2) to establish better employee-employer communication, (3) to show employees that their ideas and suggestions are appreciated and accepted.

18. Provide employees with a preliminary report of the results. This is important. Usually there is too long a time-lag between the survey time and the final report. Company facilities for tabulating are inadequate in most instances, and even a statistical service needs time. And employee interest is high. (In four different companies, from 94 to 96 per cent of the employees wanted to see the results soon.) Give them a brief, highlight report within a week.

19. Mail to the employees' homes a complete report—not the report the management gets. Indicate what management will do as a result of the survey.

20. Give management a complete report—statistical, analytical, and interpretative.

21. Develop an effective employee-employer, two-way communication, program based on the facts obtained in the survey. Since this is the chief reason for the survey, care should be taken to get a complete, tailor-made program covering the employees, their families, and the community.

Obviously, a complete program of two-way communication cannot be instituted immediately following the survey. But here are some results of the survey made in this Ohio company of 2,000 employees:

Company knowledge. A major weakness revealed was the lack of knowledge about the company. Many did not know about the benefit and service programs (insurance, pensions, credit union, etc.). As the house organ was well liked (by 88 per cent), it was chosen to present more specific information about company activities, policies, benefits, history, etc.

Training and advancement opportunities. Here there was much confusion in the minds of employees. There was little pride in the job, and a strong feeling that training provided was insufficient (77 per cent). So a

training and educational manager has been hired.

Significantly enough, 81 per cent of the workers indicated they liked the idea of being surveyed! This compares with 89 per cent, 76 per cent, and 92 per cent in four other companies where similar surveys have been conducted. In all these companies, more than 50 per cent of the employees added comments of their own. This is a fairly substantial indication of the willingness of employees to be a party to two-way, employee-employer communication.

BY HAROLD E. GREEN. *Printers' Ink*, November 28, 1947, p. 35:5.

How Costly Are "Fringe" Payments?

TO DETERMINE how widespread company-paid employee benefits ("fringe" payments) have become in industry, and what they amount to as a percentage of payroll expense, *Mill & Factory* conducted a survey among all types and sizes of manufacturing companies. Some of the survey findings are presented below:

1. Of the respondents, 75 per cent pay all or part of employee insurance; 68 per cent pay for employee hospitalization benefits; 55 per cent pay sickness and health benefits for employees.
2. As a rough estimate of what these employee benefits cost their companies, 48 per cent of those answering the survey say the cost amounts to less than 2 per cent of the payroll cost of the employee covered by the benefits. Thirty-seven per cent of the respondents say the cost is 2 to 5 per cent of such payroll cost.
3. The majority, 91 per cent, of the respondents say they do not anticipate adding other company-paid employee benefits during the next two years.
4. Such paid benefits would not abnormally jeopardize their company's financial soundness in case of a prolonged business recession, the majority, 87 per cent, of the respondents believe.
5. Considering industry in general, rather than their own particular company, 57 per cent of the respondents believe that company-paid employee benefits are becoming excessive; 33 per cent believe they are about right; 10 per cent believe they should be expanded further.

Battle on the Bulge Aids Employee Morale

MANAGEMENT is doing some novel things these days to keep workers happy and energetic.

The Goodyear Tire & Rubber Company has decided that one way to keep women employees satisfied and on the job is to help them to keep slim. It has set up a complete free slenderizing and health salon for women who work at its Akron plant—dedicated to all who want to trim waistlines and take off extra pounds. Two gym instructors supervise workouts with exercycles, roller massages, steam cabinets, and other gadgets. So far, 100 women have signed up.

—*Business Week* 3/6/48

Rating Jobs and Men in Maintenance

APPPLICATION of job evaluation and merit rating to personnel of the maintenance department of Rockbestos Products Corporation has been beneficial to the company and the men, and has made for better relations all around. Among other advantages, these tools of management have served to minimize the friction and hard feelings that arise when an employee feels he is capable of doing work of a higher grade and is therefore entitled to more money. If the employee is not properly qualified for a higher grade, it is not difficult to show him wherein his qualifications fall short of the requirements; also, he can readily be shown what he must do to achieve a higher grade.

In setting up the Rockbestos job evaluation system, 31 classifications were established for seven trades in maintenance work. Foremen were asked to list the duties and qualifications required of the men in these trades. From this information, jobs were evaluated.

Evaluations were established under the National Metal Trades Association's evaluating system, based upon measurement of the following 11 factors: education, experience, initiative and ingenuity, physical demands, mental or visual demands, responsibility for equipment or process, responsibility for material or product, responsibility for safety of others, responsibility for work of others, working conditions, and unavoidable hazards.

Jobs at Rockbestos were evaluated and placed in proper labor grades by NMTA experts. Maximum and minimum pay rates for each grade were established in negotiations with the union.

Once a month, each foreman fills out

a performance check-up sheet for each man in his crew. This sheet carries a complete list of questions designed to give management an accurate appraisal of the man's attitude and the skill and efficiency with which he performs the work assigned him. Typical questions are:

Is his workmanship ever careless or slipshod? Does he overlook or neglect details? Has he made any mistakes? Has he lost, broken, or damaged any equipment? Does he kill time on the job? Do you have to spend much time helping him?

The foreman's answers to these questions are checked off in columns headed: *Not at all; In a few instances; Normally so; Very much so.* Space is also provided on the sheet for comments and details of incidents to support the foreman's appraisal. This assures both employee and management that any possible unfavorable report will be fully documented.

At six-month intervals, a rating sheet is made out for each employee, from data on the performance check-up sheets. In establishing the rating of an employee at this time, point values are used. Five relative ratings or grades have been established in point values, 1 through 5, assigned to each. A rating of 1 designates performance of the highest order; 5 is at the other end of the scale, indicating a definite deficiency in performance of the worker.

Following are the factors considered on the employee rating sheet:

1. *Quality of Work:* (a) completeness of work; (b) neatness of work; (c) accuracy of work; (d) general usefulness of worker.
2. *Quantity of Work:* (a) amount produced; (b) use of time.
3. *Adaptability:* (a) resourcefulness; (b) comprehension; (c) integration.
4. *Job Knowledge:* (a) general job

- knowledge; (b) specialized job knowledge; (c) experience.
5. *Dependability:* (a) reliability; (b) attendance.
 6. *Attitude:* (a) toward others; (b) personal.

On the basis of a composite of the individual ratings, men are classed in Grade I, II, III, IV, or V. Here's how it works:

Grade I. Men who are receiving less than the maximum pay for their classification are raised 3 cents per hour up to the maximum pay for the job.

Grade II. Men in this group are raised 2 cents an hour up to the maximum.

Grade III. Those achieving this rank are given a raise of 1 cent per hour up to the maximum rate in force for the job.

Grades IV and V. No increase is given; men in these grades retain their

present earning rate for another six months.

Those who have achieved maximum pay for their classification are considered for upgrading to the next higher classification if they qualify for and demonstrate ability to do the work called for in the higher classification.

To avoid the impression that merit rating is purely mechanical, the rating sheets are checked by a board consisting of the foreman, plant engineer, and the job and salary rater.

The men on this board not only verify the accuracy of the formal rating, but also recommend appropriate relief in cases where a man has received an unduly low rating because of genuinely extenuating circumstances.

By C. H. DEWOLF. *Factory Management and Maintenance*, January, 1948, p. 107:3.

Open-Forum Bargaining

A NEW experiment in collective bargaining was recently launched by the Operadio Manufacturing Company and Local 1031 of the International Brotherhood of Electrical Workers—AFL. Contract negotiations were conducted on an open-forum basis with everyone invited.

Operadio employs 350 workers, and about 100 of them attended the bargaining session, which was held in the community center. Officials of the company and union argued back and forth over the union's demand for a 25-cent pay increase. The company's offer was five cents and two additional holidays.

The union presented a list of 19 demands, and the company and union representatives went down thorough them, skipping the ones on which there was disagreement.

To back up its stand, the company had the general manager read a long financial report—virtually opening the books to the union. Then it invited the union to check the company's figures or send an accountant to do so—something which hasn't been done very often.

—*Industrial Relations* 2/48

• TO DRAMATIZE THE THEME that employees who stick with the company through the years "enjoy a successful life," Thompson Products surveyed its "Old Guard" to find out how they live, how they have invested their money, how many children they have, etc. The results were published in an attractive booklet, illustrated with plenty of humorous cartoons, which was distributed to all employees—a novel idea. For your copy write: William R. Crowell, Editor, Special Publications, Thompson Products, Inc., Cleveland, Ohio.

—*Mill & Factory* 4/48

PRODUCTION MANAGEMENT...

Cutting Indirect Labor Costs

FROM the experience of companies which have recently tackled the job of controlling indirect labor costs, the Research Institute has developed recommendations aimed at the most common weak spots. Some of these are presented below. They may form a starting point for your own investigation—but don't stop there. Use the check list below as a first approach in analyzing your operations. If you do a fairly thorough job, these initial steps will point the way to additional cost-saving opportunities.

WEAK SPOTS IN WAREHOUSING. Many if not most of the warehouses now in use were never designed for storage purposes. As a result, they boost warehousing labor way out of line with any reasonable efficiency standards.

Consider the savings which a new modern warehouse can offer. It may pay to build a new structure, despite present high construction costs, if you take full advantage of recent improvements in techniques. For instance, construction costs of a one-story warehouse are almost a third less than those of the comparable multi-story building. Huge cost advantages are offered by modern methods of storage and materials handling. The recent boom in warehouse building is largely due to the growing recognition that a modern plant can pay for itself many times over by way of lower warehouse payrolls.

Even if you can't afford to build a new warehouse, many advantages can be achieved within your present frame-

work. For example, the strong trend toward one-story buildings has emphasized the need for flexibility of storage space. Is your warehouse arranged so that free space can quickly be consolidated with a minimum of rearrangement? Similarly, do you store related items closely together and on the same floor to minimize handling and to permit faster order picking?

Poorly-planned platforms, narrow aisles, and other shortcomings of old-fashioned storage methods often prevent a company from using cost-saving mechanical equipment. In such a case, you don't stand a chance of reducing extravagant labor charges until you modernize to accommodate more efficient handling machines.

WEAK SPOTS IN INVENTORY CONTROL. With markets and prices getting shifty, chances are you will need *more* rather than less inventory control. Improving your methods can pay for the cost of additional volume of controls. Here are some suggestions:

Eliminate waste effort. Some materials are sufficiently controlled by rough checks or estimates. By eliminating unnecessary work on such items, you will be able to afford a better and more accurate system for commodities which need closer control.

Modernize storage methods to simplify control. Stuff thrown in corners or piled haphazardly complicates handling, and inventory-taking is far more time-consuming and much less accurate than it should be. In rearranging goods, take full advantage of the simple

methods which permit easy counting—leave goods in original containers, grouping them in easily identified units of 12, 50, etc. Use markers on bins and hampers. They will not only serve as a warning signal when your stock begins to run low, but will greatly simplify inventory-taking.

Spread the job out wherever possible. Many companies still shut down completely at inventory time or run up terrific overtime bills because they try to crowd the big job into a day or a week-end. By staggering the inventory count over a longer period, you can get around much of this expense. Many companies have switched to the following system: Goods on which monthly inventory figures are wanted are divided into five groups, and each group is counted on a separate day of the last week of each month. Adjustments for withdrawals and additions during the last few days of the month are then made from warehouse requisition slips and receipts. Some companies use four groups, counting each during a separate week of the month, with similar adjustment for subsequent changes. This makes inventory-taking a steady job handled by a single person or small crew on a year-round schedule. In addition to cost savings, you gain the advantages of having expert, experienced inventory-takers.

PRODUCTION. Few manufacturers would think of operating without adequate scheduling of machines and direct labor. Yet planning of indirect labor is done haphazardly, if at all. The result is that savings achieved in direct labor costs are more than offset by waste in the indirect categories.* To

prevent such waste, here are some recommendations:

Tie indirect work in with regular production schedules. This not only assures continuous, regular performance of the indirect labor tasks required, but may also yield other advantages. For example, some companies are eliminating final inspection; instead, they use several in-process checks. This system prevents effort from being wasted on pieces which are originally defective; in addition, it permits reworking while the machine setup is still available, avoiding time-consuming hand work and new setups.

Give full weight to indirect labor in all cost and operating decisions. Every production man knows of profitable jobs that turned out to be money-losers when charges for the necessary setup changes were included. Frequent changes from one product to another may be expensive, not just in terms of direct labor costs, but also because of the additional indirect labor expense they involve.

Realign jobs to get maximum use of skills. High wage rates now prevailing for skilled labor put a premium on making full use of skilled workers and freeing them of all jobs which can be handled by general labor. For example, instead of assigning three electricians to changing production line setups, one company found it could get along with one electrician plus the help of unskilled workers.

SUPERVISORS AND EXECUTIVES. Obviously this is the most expensive part of your indirect labor cost, because shortcomings in these categories create additional expenses and lower efficiency everywhere else in the organization. Here are some suggestions:

Free all supervisors from routine work, and insist that they stay away

* Bureau of Labor Statistics studies in the machine tool industry show that from 1939 to 1945 direct man-hours per product dropped almost 10 per cent but this gain in productivity was turned into a loss of nearly 4 per cent when indirect labor man-hours were included.

from it. A good test here is the extent to which each supervisor delegates authority and permits his department to run with a minimum of direct interference.

Make sure the lines of responsibility are clearly defined. At the executive level especially, a great deal of waste, duplication, and working at cross-purposes results from the common failure to outline the areas of responsibility. Some overlapping of authority is sometimes inevitable but, especially in a growing or changing organization, such overlapping must be watched carefully. Have all functions sharply delineated. Catalogue all supervisory and executive functions; then distribute them according to the capacity of each individual.

Use budgetary controls and incentives to improve supervisory and execu-

tive performance. Except in special circumstances, such as research or laboratory work, an executive's performance can usually be measured in terms of his record in cost reduction to achieve a stated performance. For this reason, some of the most efficiently managed companies break down total costs and budgets by divisions and departments (even finer in some cases) and hold each supervisor and executive responsible for the record of his unit. While such a breakdown of total figures inevitably means more work for the accounting office, it offers the most direct means of getting every supervisor and executive employee to work actively toward reduction of total costs—and pays off that way.

From *More for Your Payroll Dollar*, Analysis 57, Research Institute of America, New York, 1948. 48 pages.

Measuring Productivity in Wrapping and Packing

THE value of applying production control techniques to other than factory operations would probably receive more serious consideration if hours and minutes could always be expressed in terms of dollars and cents. If management could develop an awareness of the fact that every minute spent is money expended, there would be more analytical work accomplished in the matter of making the minutes count.

Presented here is a case study of the May Company's (Los Angeles) application of the techniques of production control to the operations of its wrapping and packing department.

In undertaking an analysis of the department, it was deemed advisable to

analyze the labor costs in terms of cost per package and packages per man-hour for each type of merchandise. To secure this information it was necessary to tabulate the exact production of the department and of each packer in the department. This study revealed average hourly production per packer to be 6.5 orders (total number for the department: 10,055). Preliminary time studies for the various types of merchandise, however, had indicated that an average production rate of 9 to 10 packages per hour could reasonably be expected.

Investigation indicated that the low packing production rate could be attributed to the following factors:

1. *Inefficient training of packers.* No specified plan of instruction was being given to packers, and no standard procedures had been adopted.
2. *Lack of control over production.* Though packing reports were being made, packers had found from experience that reports were not analyzed and that their failure to report all work accomplished was not always apparent to the supervisor. Each packer was aware that the number of orders packed in no way indicated the exact amount of effort which he expended, and that the supervisor could not accurately determine the relative efficiency of his packing solely on the basis of the total orders he reported.
3. *Lack of incentive for packers.* There was no premium on high packing production; therefore, there was no incentive to do better.
4. *Inefficient layout and inaccessibility of wrapping materials.* Very often the packer was required to spend as much time searching for the material used for packing as was actually required to pack the order for delivery.
5. *Physical working conditions.* The lighting equipment and appearance of the department were not conducive to high production.

Time studies were taken on over 1,500 individual orders. Many of the elements of packing operations were similar for several, or all, classifications of merchandise; other elements varied with the type of merchandise. In each case, standards were built up from standard time for each component part of the packing operation. This work made possible determination of the following information for each individual, or the department: (1) number and type of orders packed, (2) actual direct hours and cost of packing each type of order, (3) comparison of actual and standard production, (4) comparison of actual and standard costs, (5) analysis of wastes and losses.

Production control was installed officially for the week ending January 4, 1947. Each packer reported the time spent on each type of merchandise and any time spent waiting for work or doing unmeasured work. Production for

each packer was determined by the collection of packing stubs removed from the packages at the delivery platform.

The operating labor control sheet for the department revealed that each dollar's worth of production was actually costing the firm \$1.82. Almost one-half the total payroll was non-productive.

The extremely wide variation in production indicated the necessity for concentration of training and supervisor effort on packers who had extremely low production averages. The fact that many packers were consistently maintaining satisfactory production levels indicated that the standards established were reasonably accurate. It was essential, therefore, to determine and eliminate the causes for substandard production.

The analysis of the indexes of individual packers and an evaluation of the contributing factors indicated the following:

1. 31 per cent of the packers were good producers; they were hard-working, steady pluggers, backed with years of experience. This group was producing 50 to 60 per cent of the total production of the department.
2. 12 per cent were medium-to-low-index producers because of age, physical impairment, or other factors which made it impossible for them to produce at a faster rate. These packers were interested in their work and desired to continue packing. The obligation of the firm toward these people, all of whom had served for several years, eliminated the possibility of terminating them. It was decided that transfers to departments better suited to these individuals should be made when the opportunity presented itself.
3. 12 per cent were low-index producers because of lack of basic intellect and capacity to learn or lack of body coordination. Most of these had just come in to secure a job and had no interest in packing or their relative packing efficiency. This group was largely responsible for the low index of the department. Since the firm had no responsibility to these individuals, it was decided to terminate their employment.

4. 12 per cent were medium-index producers who possessed the same qualities as the high producers, except that they had never been taught proper methods. A concentrated training program was initiated particularly for this group and for the group listed below.
5. 33 per cent were medium-to-low-index producers. These packers were relatively new in the packing profession and were low through lack of experience or training. They had the capacity to learn and could be trained. Results indicate that the training has produced the desired improvement.

Beginning after the first week of production control, the index of the packing department increased steadily over the first six months. Personnel in the department became extremely conscious of their responsibilities, so far as accomplishing as much in a day as was reasonably possible was concerned.

Steps were taken by management to correct many undesirable factors in the

department, and the individual packers displayed a sincere interest in the job they were doing. In a period of six months, the entire personnel of the section changed to the extent that the employment office was able to select and place better qualified people in the section. The recording of individual production indexes for all packers proved a valuable means of knowing the weak points in training. It also indicated in a short period of time those individuals who seemed to be "square pegs in round holes." As a matter of fact, perhaps the most valuable part of the initial program was the data which supported a screening of the individuals in the department.

From an address by Frank I. Swenson before the Retail Controllers Association of Southern California (*The Balance Sheet*, February, 1948, p. 7:6).

Additional Facts About Normal Effort

By HAROLD R. NISSLEY*

FACT NUMBER ONE. There are today two concepts of normal effort: (1) a daywork or moderate pace concept; and (2) a piecework or brisk pace concept. Though operator earnings in neither case influence engineers' performance ratings, the final earnings in each case are identical.

Let us assume, as an example, that the base or daywork pay of a job is \$1 per hour and the daywork normal is 100 pieces an hour. Under the method of rating based on the first concept, the "daywork normal" engineer, while setting his standard at 100 pieces an hour, knows that when the job is put on incentive the average operator will

turn out between 120 and 130 pieces (as against his previous hourly *average* of 80), and thus will make \$1.25 per hour.

The method of rating based on the second concept, which is growing in use,¹ is that method whereby the engineer rates² operator performance

¹ Among some of the firms now using the "incentive normal" instead of the slower daywork normal are: Armstrong Cork, American Steel and Wire, General Electric, and Western Electric.

² "Rating is the mental process an industrial engineer goes through when he compares an operator's speed (and skill) of performance with the observer's concept of a 100 per cent operator. Although this normal effort concept remains fairly fixed actual shop productions may vary considerably depending on a number of factors such as (a) changing conditions of the labor market, and (b) caliber and concentration of supervision." (*Industrial Management Bulletin*, October, 1947.)

* Professional Engineer, Cleveland Heights, Ohio.

directly at an incentive or brisk pace.⁸ Under this procedure, the incentive "normal" pace for the above job would be set at 125 pieces an hour. The engineer knows that some operators may go as high as 150 or even in rare cases 175 per hour; on the other hand, one or two (out of 100 carefully selected and well-trained operators) may not exceed 100 pieces per hour.

In terms of the well-known card dealing experiment, the daywork normal is

⁸ "A fair day's work for which normal incentive compensation is paid is the amount of work which can be produced by an average qualified employee through the most effective use of effort, materials, and equipment while working at a normal incentive pace during all portions of the workday other than that which is required for normal rest.

"Normal incentive compensation is a figured percentage of the established base rate, and it is usually about 25 per cent. In other words, for incentive performance the company pays a premium over the base rate, which is a regular established hourly rate for the job.

"An average qualified employee is a man who has been working on a given class of work long enough to have acquired the necessary skill and knowledge; one who is fitted for the work by nature, and one who possesses the required intelligence and education to perform satisfactorily the work at hand.

"The most effective use of effort comprehends the efficient application of the employee's effort according to proper methods. For example, job elements which can be performed while the machine is running rather than while the machine is down should be so performed. A further example is that all the job elements in the cycle of production must be performed in the established sequence and manner.

"The most effective use of materials comprehends the proper handling and use of both processed and processing material. Tools, lubricants, and supplies must be used in the established workmanlike manner. It requires that all materials be on hand in adequate quantity in the proper place and in proper condition.

"The most effective use of equipment comprehends the availability of the necessary amount of equipment which, when properly handled at standard speeds and with proper down time, will produce the production required by the production standards.

"The normal incentive pace comprehends the proper handling of machine and tools at the maximum pace that can be maintained over the working day without harmful effects. The correct pace is established by trained time-study observers, using as reference or standards the pace that experience over a long period on similar equipment and tools indicated is possible.

"Normal effort (i.e., normal incentive effort) then may be said to be that speed developed by an experienced operator previously selected from a normal labor market—a speed which can be maintained throughout an eight-hour day without undue or cumulative fatigue. Such normal effort will be the same level of effort during war and peace—down south or up north—man or woman.

"There is too great a tendency to shift normal as the times and climate shift. When this is done, as much confusion results as when standard and daylight-saving times are used."

The foregoing definition of normal effort was brought out in an important arbitration case and reprinted in the August, 1945, issue of *Mill & Factory* (pp. 123 and 258).

between 0.45 minutes (Phil Carroll, Jr.) and 0.50 minutes (Ralph Presgrave). The incentive normal, as found by actual timing of over a score of lunch-time semi-professional card players, is from 0.36 minutes to 0.40 minutes.

Observe that at a piece rate of one cent each the operator is as well off under one system of rating as under the other.

The question naturally comes up at this point: "Why have two rating scales?" One might answer this facetiously by countering: "Why have two scales of anything—temperature measurements, mechanical energy, linear lengths, ad infinitum?" Actually, the answer is that just as there are sound practical (operating) reasons for maintaining the British and the C.G.S. systems of measurement, so there are sound arguments in favor of each of these systems of rating.

Obviously, the slower daywork pace is easier to sell to employees and the union. On the other hand, the slower pace is more difficult to speed-rate. The reason for greater accuracy in speed-rating at the higher incentive pace is that most people—laymen and trained observers alike—can more readily determine when an operator is approaching the limits of exertion (and skill) than when he is "sauntering" along at a daywork pace. It should be noted further that this brisk incentive pace can be maintained over an eight-hour day with suitable rest periods without noticeable fatigue.

FACT NUMBER TWO. Whether a daywork or incentive normal is considered, the greater the deviation from normal, the greater the probability of error. In other words, most experienced and many inexperienced observers would ordinarily come within

10 per cent of a normal rating (after the exact normal had been demonstrated); but if a pace half of normal is displayed, ratings ranging perhaps between 40 per cent and 70 per cent for a group of 10 trained observers might result. As normal is approached, this spread narrows. The same phenomenon appears at the upper end of the scale; if a speed of 150 per cent is displayed, the ratings of 10 observers may range all the way from 130 to 160. It should be noted that the usual tendency is to rate loosely on the lower end of the scale and tightly on the upper end.

Thus a slow machine-paced job on which the employee has synchronized his movements with the speed of the machine is difficult to rate correctly because everything seems to be working like "clockwork"; similarly, a new operator, because of his lack of skill and low speed, is difficult to rate, and rating of such operators should therefore be avoided.

FACT NUMBER THREE. In general, rating experiments conducted thus far seem to indicate that foremen are lower (tighter) raters than are trained engineers. The data collected to date seem to point to an average of 5 to 10 per cent tighter ratings by foremen. There are several possible reasons for this which will not be discussed here. Laymen, on the other hand, tend to rate loosely. There are, of course, many exceptions to these general conclusions.

FACT NUMBER FOUR. Just as skill and judgment in other matters can vary from day to day, depending on a person's physical and mental well-being, so can and do speed rating judgments vary from day to day and even from job to job. Seldom, however, are these variations greater than 10 per cent;

in other words, a person may rate a film or an actual performance 90 per cent one day and 100 per cent the following day. Unfortunately, this "halo" effect is fairly constant; there may therefore be some basis for an operator's charge, "I sure hope the time-study man is feeling good today."⁴

Many firms are overcoming this tendency of time-study observers to rate consistently tightly or loosely by group rating of single jobs, by card dealing, by use of films of known speeds, and by other methods. Monthly time-study meetings bring the raters together to compare and improve their skill in speed rating. Dr. Ralph M. Barnes, Mr. Phil Carroll, Jr., and others have achieved striking success in narrowing down speed-rating deviations through the introduction of such group activities.

CONCLUSIONS. The facts presented in the foregoing paragraphs may be summed up as follows:

1. To avoid confusion—especially interplant misunderstanding—it would be well to emphasize the "brand" of normal under consideration—daywork (moderate pace) or piecework (brisk pace).

2. Whereas speed rating is a fairly accurate science when done within the plus or minus 20 per cent of the normal band, it becomes less accurate as performance moves farther and farther away from this plus or minus 20 per cent band.

3. By and large, foremen are tighter raters than are time-study engineers, and laymen are looser raters. There are, however, many exceptions to this generalization.

⁴ See the author's discussion of the dangers of the single 30-minute study that does not have supporting standard or check data: "The Reliability of Time-Study Standards," *THE MANAGEMENT REVIEW*, February, 1948, pp. 83-84.

4. There are few trained observers who can maintain consistent speed ratings day after day. Some observers will vary more than others. The ma-

jority will usually keep within a plus or minus 10 per cent range, especially when dealing in speeds within a ± 20 per cent normal range.

MARKETING MANAGEMENT...

Compensating the Sales Force

CERTAIN portents for the future are indicated in the findings of a recent Dartnell study of the methods of paying the sales force currently employed by more than 300 companies in varied lines. Some general predictions for the sales department seem justified in view of these portents, for example:

1. There is no immediate prospect of relief in the high cost of automobile transportation.

2. Good new men will be hard to find; the price for their services will continue high.

3. As new salesmen are absorbed into the organizations they have joined, the average earnings of salesmen will rise unless some unforeseen outside factor changes the business outlook.

4. The tendency toward installing more complicated payment plans than straight salary, straight commission, or salary and bonus will continue.

5. One group—supervisory sales personnel—has not received increases in income comparable to either the sales force or the sales executive. Adjustment of this matter will be an immediate concern in many organizations.

6. Job analysis in the sales department will become more common, because it gives management both a tool and a precautionary device.

The simplest methods of compensation are, of course, straight commission and straight salary. Among the companies reporting in this survey which use straight commission is an Ohio machinery manufacturer whose advertising manager commented:

Some salesmen do best on commission; others do best if not worried about security. I've often wondered if it might not be smart to let each man choose for himself between straight salary and straight commission. The best efforts come from satisfied men.

A manufacturer of electrical appliances made this comment:

Salesmen who have worked on salary plus commission and expense prefer the straight commission basis because they have full control of their expenses without supervision.

While most sales managers will grant two major advantages of straight commission compensation—fixed sales cost and simplicity of administration—not all are agreed that the advantages outweigh the disadvantages.

One disadvantage of a straight commission system of payment is that it pays off entirely in terms of sales volume. Unless modifications are made to a straight commission plan, it does not provide any special rewards for opening new accounts; it penalizes a good man who has been transferred to a run-down

territory to rebuild it; it makes no provision for beginning salesmen; and, except in the handful of companies which know their exact potential, straight commission is unfair to men in different territories. A textile salesman on straight commission in New York City, for example, could make far more money for far less effort than the salesman for the same company working the 10 states out of Salt Lake City.

The most common variation on straight commission is the use of a drawing account against commissions to give the salesman a little security. However, present practice among most companies which use this method is to treat the drawing account, for all practical purposes, as a salary.

The drawing account is ordinarily used in two ways: (1) to enable the salesman to pay recurring bills without reference to his immediate earnings, and (2) to "stake" the man who is developing or redeveloping a territory. In either case, the same effect can be achieved by a base salary, and most of the newer plans recognize this fact.

Whether the system be referred to as salary and commission, salary and bonus, salary and incentive payment, or something else, the most common method of repayment of salesmen and the one toward which more and more companies are trending is one in which the salesman receives a base salary plus further compensation for his personal contribution to the achievement of the sales goals set up by the company.

It should be mentioned that the methods of making these extra payments and the reasons for which they are made vary widely. In some organizations, the override is paid on straight volume; others will reward their men for such details as keeping their shoes shined and making out their reports neatly.

The company, having determined its break-even point in a particular territory, agrees to give the man additional income for achieving sales beyond this break-even point. While the subject of determining the break-even point is entitled to a book in itself, it may be mentioned here that a number of organizations are using the same rule of thumb in setting it: Quota is equal to 10 times the salesman's salary and expenses. Commissions are paid on sales beyond this figure.

One firm's plan is based on recognition of the fact that there are a number of factors controlling volume which will be beyond the ability of any one salesman to adjust. The company's sales manager said:

All sales compensation plans must consider many factors, some of which tend to be unfair to certain men. For example, developing or introducing a new line; moving a good salesman from a highly developed territory into a run-down territory . . .

To balance these conditions we have developed a unique setup . . . The company sets aside each month a percentage of the gross margin of all sales in a special commission and bonus reserve fund. At the end of the year, this fund will be distributed among the salesmen and other members of our sales organization who have contributed directly to the sales effort.

Approximately 80 per cent of the amount will be distributed to the salesmen on a percentage basis, as their percentage of the gross margin is to the total gross margin. The remaining 20 per cent is distributed according to the best judgment of the management in a manner to adjust certain inequalities that inevitably are present due to territorial conditions, deliveries, and so on.

This is one of the few plans mentioned in this study which makes provision for distribution of a bonus share to members of the sales department other than the salesmen. It has the additional advantage of ruling out difficulties over windfall orders and across-territory shipments.

It may be safely predicted that one

of the next fields of sales administration which will occupy the attention of sales executives will be that of properly reimbursing their supervisory personnel. J. W. Nickerson, of Bigelow, Kent, Willard and Company, speaking recently to the Sales Managers Association of Minneapolis, concluded an address on sales compensation by saying:

The two principal functions of sales management may be said to comprise maintaining proper volume at proper selling expense. With a well-laid-out program of merchandising, marketing, and sales compensation, it is entirely logical as a summation that in addition to an otherwise appropriate salary scale there should be an extra compensation for sales management closely related to these two functions, properly weighted.

Such a plan would be based upon the aggregate accomplishment of the sales force against quotas and the relation between the actual variable selling expenses under the control of sales management and the corresponding budget of selling expenses.

There is the possibility of a good debate in the idea that sales executives should receive bonus payments; American business is split about 50-50 on this point. There is, however, little doubt that a bonus arrangement for the lower ranks of supervisory personnel—district, branch, and division managers, for instance—offers a possibility for improved selling which in many firms has not been touched.

The Dartnell Corporation, Chicago.

A Pension Plan for Commission Salesmen

THE trend in salesmen's pension plans is gaining momentum. One plan now in operation which is stimulating production is the planned savings program that provides retirement funds for 120 straight-commission sales experts of the Alexander Film Company, Colorado Springs.

In October, 1945, the Alexander Company extended its employee pension trust plan (a combination of standard annuities and planned insurance) to members of its sales staff. Each Alexander salesman is eligible to join the plan after five years' continuous service. The plan enables the men to retire at age 65, or within 10 years from date of enrollment, with a monthly income for life. The amount of income is determined by average annual earnings over the five-year period prior to retirement, at the rate of \$10 for \$1,000 of earnings. Pension benefits are adjusted on each anniversary date—December 31. Thus the retirement benefits are increased in proportion to earnings increases.

Insurance policies guarantee the pension payments. In addition, every insurable member of the plan also receives standard life insurance benefits from these policies.

Even families of the uninsurable are protected. Cash value of these annuity policies builds up rapidly. At the end of a five-year period, the cash value approximates the death benefits. Policies provide that if such a member should die before retirement, the sum of all premiums paid prior to death or the cash value of the policy, whichever is greater, will be paid to the beneficiary.

If a salesman leaves the company after being a participant in the plan for five years or more, ownership of the entire policy taken out for his account will be transferred to him, and he may assume responsibility for full premium payments, take paid-up insurance for the amount due, or surrender the policy for its cash value.

What does the plan cost? Salesmen pay only half the cost, with the company matching each yearly payment, dollar for dollar. Dividends payable on the insurance policies, beginning at the end of two years, are applied toward reduction of premiums.

—Sales Management 7/15/47

• EXPERTS IN DIRECT MAIL say that three days after a prolonged rainy spell, mail order houses can expect a deluge of orders, especially from country people, forced indoors and with plenty of time to go through catalogs.

—Graphic Arts Messenger

Salary-Plus Plans for Compensating Salesmen

THE salary-plus type of plan for compensating salesmen consists of a salary base plus one or more supplementary commissions or bonuses. It is a cross between the straight salary and the straight commission types and was devised to overcome major disadvantages of both types.

The salary base may be fixed or scaled as in the straight salary type of plan. There is, however, the problem of determining what proportion the base salary shall be of the salesman's total earnings. In general it is believed that the base salary should provide for the man's living expenses and that the incentive feature should provide the rest. The incentive feature should be substantial enough to influence the salesman to act. A view has been expressed that base salary should not be less than 40 per cent of a man's total earnings, and that generally the proportion should be higher. Proportions commonly noted in plans of companies surveyed during the preparation of this report have ranged from 60 to 90 per cent. One of the reporting companies recently raised the proportion from 60 to 75 per cent.

The purpose of the plus feature is to add one or more incentives to the plan. These incentives are designed to accomplish one or more of the aims of the plan, and these aims therefore indicate the incentive or incentives needed. If more than one incentive is indicated, the problem is to determine how many there should be. Each incentive added to the plan makes the plan that much more complicated. If the incentive features are graduated and the base salary is scaled, there may be so many variables as to make the plan confusing.

The incentive feature may be made

more sensitive by graduating or scaling it. In some cases, definite limits are placed on the amount that can be earned under the "plus" feature.

Hundreds of incentive features have been noted in the salary-plus type of plan. Considerable flexibility is possible. A few examples of these incentives follow:

Commission on Sales.—A food manufacturer reported basic salary, plus commission on all sales in the territory, plus a flat monthly sum for car expenses, plus a daily sum for living expenses, plus a reasonable amount for entertainment.

Commission on Sales of Profitable Items.—A grocery wholesaler reported salary plus a scaled commission on sales of the profitable items, a list of which is furnished each man.

Per Cent of Salary for Making or Exceeding Quota.—A manufacturer reported salary plus 5 per cent of annual salary for making the quota, 7.5 per cent for 110 per cent of quota, and 10 per cent for 120 per cent of quota.

Bonus on Sales Over Quota.—A manufacturer of photographic equipment and supplies reported salary plus a yearly bonus of \$300 for making quota and \$300 for each 10 per cent of fraction over quota. The bonus has averaged 20 per cent of the man's total income.

Commission on Net Profit Over Quota.—A wholesaler reported a monthly salary plus 45 per cent of net profit in excess of twice the salary.

Commission on Net Profit for Quota Accomplishment.—A manufacturer pays salary plus from 1 per cent of territorial profit for 80 per cent of the quota up to 6 per cent of net profit for 110 per cent of the quota. The quota

is 40 per cent over actual sales of the previous year.

Bonus or Commission for New Business.—Some firms reported a bonus for each new account. Others reported paying a commission on sales to new accounts for an initial period (a month, six months, a year). Some reported paying extra for renewals of contracts.

Commission on Net Profit.—A wholesaler reported a flat weekly salary plus 10 per cent of the net profits on a man's sales for the week, less any allowances made in settling accounts.

Bonus for Building Up Individual Accounts.—Several publishers reported bonuses or commissions for building up individual advertising accounts by increasing the number of insertions, by procuring larger orders, or by getting yearly contracts. One publisher scales the bonus by insertions as follows: 50 cents for three times, \$1 for seven times, \$1.50 for 13 times, \$2 for 26 times, and \$3 for 52 times.

Commission for Lowering Salary Cost.—A commission is paid to a salesman for lowering the percentage of his salary to his gross sales below a maximum. One company reported a commission if the cost is 10 per cent or less, the commission being scaled upward as the cost percentage falls. No salesman in the company has gotten the cost below 4 per cent. A salesman with a salary of \$50 a week made more than \$1,000 in commissions in one year.

Group Bonus for Cooperation.—Various arrangements to induce salesmen to cooperate have been reported. One company divides a bonus fund based on increased sales over the previous period among all salesmen on a

more or less equal basis. Another company reported assigning each salesman a quota and, if the department exceeds its quota by 10 per cent, giving a bonus of 10 per cent of his salary to each member meeting his individual quota. For increases over the 10 per cent, the salesman gets a corresponding percentage of his salary.

Bonus for Supervising Other Salesmen.—An overriding commission is paid on the sales of the person supervised. Some firms pay bonuses for supervising others.

The salary-plus type of plan retains most of the advantages of the straight salary type and adds these:

1. One or more incentives designed according to the requirements of the company.
2. Greater flexibility through the additional incentive features.

At least three disadvantages have been reported for this type of plan.

1. While the plan provides for greater control over certain specific activities of the salesman, the general authority of the company is likely to be weakened. As the proportion of his earnings for special activities increases, the salesman tends to neglect those things for which he is not directly paid. Hence, the ratio between base salary and "plus" earnings is important.
2. The complexity of the plan increases with the number of supplementary commissions and bonuses. This adds to the difficulty of understanding it.
3. The addition of incentives increases the clerical cost of operating the plan.

From *Designing a Plan for Compensating Salesmen*, Policyholders Service Bureau, Metropolitan Life Insurance Company, New York. 59 pages. Issued to Metropolitan group policyholders; limited supply available to fill requests of other executives.

• ACCORDING TO a Twentieth Century Fund report, an estimated 90 per cent of the total business of manufacturers and wholesalers in the United States before the war was done on credit, and at least 33 per cent of retail sales were charge accounts or installment purchases.

Price Guarantees to the Trade

THERE is evidence of growing interest in "descalator" clauses. This article is not intended to predict that prices are due to tumble! It is simply based on the premise that *if* prices *should* soften, intelligent trade relations suggest courageous and aggressive action by manufacturers.

As a matter of fact, the subject is worth studying in advance of the need. This is evidenced by the experience of one manufacturer who in the spring of 1947 announced a sharp price cut. Not only were dealers given no price protection—they *weren't even given advance notice!* Consequently, they rose up in wrath. The manufacturer was compelled (1) to mollify the dealers by offering to run special advertising locally at his own expense on the price reduction and (2) eventually to announce that he was resuming his pre-war policy of guaranteeing against price declines.

What are the various forms of price guarantees from which a manufacturer may frame his own "descalator" clause—if and when circumstances dictate such a move? Here, based on actual practice during the first half of 1947, when prices weakened temporarily, is what some manufacturers told their trade:

1. When General Electric both improved and sharply reduced the price of one of its traffic items, it gave dealers a 60-day warning to move old stocks. Inasmuch as dealer stocks were lean, that warning was sufficient. About the same time, Stromberg-Carlson told its distributors and retailers that, while no price reduction was contemplated, the trade would be notified at least 30 days in advance if one proved necessary. (There may be reasons currently to reassure the trade in several fields.)

2. A company in the grocery field told its wholesalers:

We are pleased to announce that we will provide floor stock protection against price decline on our nationally advertised packaged products which have been invoiced within 30 days prior to date of a new and lower price becoming effective. Floor stock protection will be granted only on stocks in your warehouse.

3. In the women's accessory field, a manufacturer who made a price reduction on one item early in 1947 sent a credit memo to customers covering shipments made for the half month prior to the effective date of the lowered price.

4. In small appliances, a prominent manufacturer told the trade during the mid-1947 spell of jitters:

Should a downward price change be necessary before expiration of our customary 60-day advance notice period, distributors will receive the full difference between their original cost and their new cost on any inventory of our products in distributors' or dealers' stocks up to the total quantity purchased during the period of 60 days prior to the effective date of the price reduction. We will accept billing for this difference from franchised distributors upon receipt of proof of credits issued by distributors to their retailers in implementing this policy and proof of distributor inventories of our products in accordance with the foregoing paragraph of this letter. Credit memoranda for goods in transit from our factory to distributors will be issued automatically.

5. Reynolds Metals Company told its trade, in September of 1947:

In case, during the period of 90 days from September 15, a price reduction of the products of Reynolds Metals Company's utensil and housewares division is made effective by us, we will at the time of such reduction reimburse distributors and dealers on all units held by them in their stock on the effective date of the price reduction to the extent of the difference between the price paid by distributors and dealers for such items at the present prevailing prices to distributors and dealers and the reduced prices effective to

distributors and dealers after such reduction.

(Note: *Why must the legal pen be so evident in these price guarantees?*)

It might be noted that there is some dispute, in merchandising circles, over the wisdom of giving either cash or merchandise credits to compensate for inventory adjustments. Those who oppose this policy charge that there is nothing in any of these plans that impresses upon the trade the desirability of exerting *extra effort to move* merchandise, whereas extra effort may be precisely what is most important. As the president of a large company in the housewares field put it: "These credit memo plans tell the trade, in effect, that they are nice fellows and that if they will just sit tight, nothing will be done to upset their happy equilibrium. *I favor simply an advance notice.* That gives the trade fair warning and tends to assure that the trade *will take some steps to clear out their inventory.*"

In various industries, of course, there are special situations that demand special policies. For example, in one of the luxury fields a manufacturer tells us: "When price changes appear imminent, we deliberately hold back on shipments for dealers' stocks. We ship

only 'rush' and 'sold' orders. Furthermore, we endeavor to give the dealer as much warning of a coming price change as possible."

Back in 1931-1934, manufacturers had plenty of experience with the merchandising of price reductions. An investigation of the files of that long ago era uncovered the following:

1. Canada Dry Ginger Ale, in announcing a price cut late in 1933, gave dealers one case free for every five cases ordered, for a period of three weeks. Jobbers were asked to report floor stocks and received free goods in like proportion.

2. A home furnishings company issued a "Bond of Confidence" in 1931 which assured buyers of its cotton goods that they would get a refund if the cotton market declined within a specified period after the order had been placed.

3. In 1934, six weeks before the Pepsodent Company announced a lower price, jobbers were advised to reduce their stocks to a minimum. Two weeks later, the retail trade was told to clear its stock. Then an adjustment was made by the company on all inventory uncleared at the time the new price became effective.

Grey Matter, April, 1948, p. 1:4.

Self-Service Groceries on Increase

MORE and more of the nation's food stores are switching to all or partial self-service. A recent survey completed by the National Association of Retail Grocers and the Saturday Evening Post, third of a series started in 1944, showed that 78.8 per cent of the independent retail grocers are entirely self-service in operation or have incorporated certain features of self-service. Four years ago the total was only 53 per cent. Widespread acceptance of pre-packaged food has contributed in large measure to the move toward self-service.

The survey revealed that canned goods and packaged groceries account for 31 per cent of all independent retail grocery sales, while meats account for 28 per cent. The rest is made up of fresh fruits and vegetables, dairy products, bakery products, and others.

In choosing certain food products for preferred shelf positions in their stores, retailers show that they are influenced by three main factors—consumer demand, profit margin, and national advertising.

—*The Wall Street Journal* 4/1/48

FINANCIAL MANAGEMENT...

Guideposts To Better Budgeting*

By STEPHEN HAVASY

THE misconceptions and fallacies that prevail about business budgeting are understandable because this management tool is only now beginning to reach maturity. New guideposts to better budgeting are needed.

Because budget preparation runs almost parallel with accounting, and because it is natural for accountants to prepare comparisons of actual with budgets, it might appear on the surface that budgeting is a function of the accounting officer, done by him and for his benefit. Deeper analysis indicates, however, that for it to be really successful, it must be a function of all top management, performed through the concerted and cooperative effort of all executives and department heads and for their individual and combined guidance and benefit.

In all cases the chief executive must promote the budget idea. In small companies he can be his own budget man. In larger companies, he needs a budget man to plan and schedule the program, to work with executives and department heads, to coordinate and consolidate the several elements, and to prepare and analyze actual results in the light of forecasts and budgets. This budget man can be a budget director, a controller, or any other executive. In order to qualify, he must be a business man first—an accountant second—so that he can meld the two natural approaches to business problems by:

1. Developing ideas and expressing them in figures.
2. Grasping the implications of a new plan, analyzing it, and then figuring out the probable dollar outcome.
3. Relying on both imagination and intuitive business sense as well as on factual, statistical analyses.

To be successful, the budget man must, among other things:

- Know about all contemplated management plans
- Help to develop future plans
- Have access to all company records
- Attend important planning meetings
- Be permitted to discuss problems with all executives

While the success of a budget man depends on many factors, some outside his control, there are yardsticks for measuring the effectiveness of a budget plan. Since budgeting is not a game of prediction, nor a matter of crystal-gazing, it is meaningless to say that "Our budget missed actual performance by only 2, 3, or 5 per cent." The real, but somewhat intangible, measure of its success is whether it enables a company to be more profitable than without its use. Tangibly stated, this measure is composed of three elements:

1. Forecasted sales must be within at least 10 per cent of actual sales—for some industries, within 3 per cent.
2. Forecasted profit must be not less

* Excerpted from Budget Bulletins 1-7 of Stephen Havasy & Company, Chicago. Copyright 1948, Stephen Havasy & Company.

than the previous year's actual profit—adjusted for the difference in volume, of course.

3. Actual profit must be more than forecasted profit. For real accuracy, an adjustment for difference in sales volume can be made, but if actual sales are within 3 per cent of forecasted sales, this adjustment will be insignificant.

This is a tough par for the course, but it can be done if the basic philosophy is *Beat the Budget* in contrast to *Meet the Budget*. The prevalence of the latter concept can be understood, since it is a hangover from government budgeting where expenses are determined first and income (taxes) second. This fallacious method is practiced by some sales managers in determining selling expenses: sales forecasts are set by multiplying the amount the sales manager wants to spend by some arbitrary number. Other companies, recognizing this fallacy, prepare a realistic sales forecast but then fall into another fallacy by scaling expense amounts in the budget up or down without first determining just where and how they will actually be brought into line with volume.

In a good budget system, market and business conditions are studied to determine a reasonable and attainable sales volume with no change in selling methods. Second, expenses to realize this volume are determined. Third, actual selling methods are studied; and if definite plans are devised whereby a larger volume can be anticipated, increased expenses required for the new plans and anticipated increased sales income are added to the previous amounts. The budget then becomes a realistic dollar-and-cents picture of the firm's selling plan. Expenses are related to income and income to expenses.

The goals are realistic and attainable.

Better budgeting promotes better management by:

1. Compelling each division head to appraise each plan of action in order to determine its anticipated cost and the benefits to be derived. These appraisals, being made in concrete terms, ahead of execution, promote forward thinking and planning.
2. Facilitating the coordination of the many plans of the company, accomplished by putting together the several elements of the budget; each added element is based upon previously determined elements.
3. Providing the chief executive with the means of knowing what the effects of carrying out the plans of his top executives will probably have on end results.
4. Furnishing executives, department heads, and supervisors a means of controlling all activities by the exercise of directing, guiding, and restraining power over income and expenditures and, consequently, over profits.

A good budget plan provides control mechanisms all the way up the organization lines. The three types of power, however, are not exercised to the same degree at each level of management. With foremen, restraining power predominates, while the exercise of directing power is the most important with the chief executive. With in-between gradations, there is a gradual shift from restraining power to guiding power and, lastly, directing power.

This type of control does not make the budget the last word, the authority to do everything and anything, even to having each purchase requisition checked to make sure the item to be bought is "in the budget." Better budgets do not rob the executives of

initiative and deprive them of their proper authority to carry out their responsibilities. They are tools for the executives to fulfill their responsibilities better than they could without budgets.

Reports showing comparisons of budget with actual performance should follow the organization structure. The chief executive should receive, together with a profit-and-loss statement, a report showing by how much each of his division heads deviated from budget, together with facts as to the causes of each deviation.

This mechanism is especially useful when there are changes in top management personnel. One of the first acts of a new managing executive should be to take an active part in the preparation of a complete budget. It will help him—more than anything else—to familiarize himself quickly with the company's top executives, problems, products, markets, cost of operation, and profit

possibilities. With a budget plan he can start almost immediately to plan and coordinate the firm's activities.

Changes in conditions, outlook, and policies, like the following, make the use of budget plans profitable:

| | |
|----------------|---------------------------|
| Profit margins | Material and supply costs |
| Product design | Plant facilities |
| Product prices | Plant location |
| Labor rates | Distribution methods |
| Salary rates | Volume of sales |
| Organization | Competitive situation |

During times of change, however, there is a tendency to drop the use of budget plans because it appears that they become more difficult to operate. But it really is not budgeting that is complicated. What is difficult is the solving of the problems, which good management must solve—budget or no budget. Consequently, budget plans are required more during times of change because, when properly used, they do force executives to think their problems through.

"Stockholder Contentment" Program

THE fine art of making stockholders happy with management is drawing a growing number of people into the fairly new field of stockholder relations. Newest of these corporate consultants, which include proxy solicitors and advertising, public relations, and management consultants, are a few firms whose mainstay is an over-all "stockholder contentment" program. Impetus has been given to the movement by three factors:

First, management now sees the promotion of good stockholder relations as a question of enlightened self-interest.

Second, the stockholder has been getting increasingly skittish, as evidenced by a higher number of proxy contests.

Third, the stockholder nod has often been needed in the last few years, and this situation will continue. It is estimated that companies in this country will need some \$23,000,000,000 in capital this year, and the raising of a sizable part of it will have to be approved by shareholders to the tune of two-thirds majorities.

Last year, they okayed the flotation of some \$6,200,000,000 in new corporate securities, making it the second biggest year—1946 was the largest—since 1929. This year, such new issues are expected to aggregate \$8,000,000,000 to \$9,000,000,000.

There are at least a dozen New York firms with nationwide field organizations which do proxy solicitations, others which specialize on reports on companies to be sent to brokerage houses, and dozens of advertising, public relations, and independent agencies which take care of over-all stockholder relations programs or individual aspects of them, such as the handling of annual reports.

—JEAN WILSON in *The Journal of Commerce* 3/16/48

What One Company Learned About Its Stockholders

THE opportunities for improving stockholder understanding of the problems of business management, for strengthening the mutual identification of personal and corporate interest, for instilling investor confidence, and for helpful, natural promotion of the company's products and what it stands for in the industrial, economic, and social scheme of things—all these and more are offered to the company that is willing to develop a soundly progressive attitude toward its stockholder relations policies.

The paragraphs that follow will be case history stuff on one company's experience in testing investor attitudes. The company is General Foods—a widespread, but well-integrated, organization of about 80 producing units employing approximately 16,000 regulars. Of its 70,000 stockholders, about 55,000 are individuals, and three out of every five of these are women.

In 1940 GF took its first exploratory step to try to uncover investor likes and dislikes. A comprehensive questionnaire was mailed to stockholders in 1941 with their November 15 dividend check. Purpose: To learn (a) what stockholders liked and did not like about the 1940 GF annual report, and (b) what subjects and material they would like to have covered in the 1941 report.

This procedure was followed annually until 1944, when the usefulness of this type of study had been wrung nearly dry. No studies were made in 1945 and none in 1946.

The fund of general data which these and independently managed studies provided had rounded out a broad formula for better reporting, but it did not give management a yardstick with which to measure the effectiveness of

the reports it produced when this formula was followed.

A readership survey was clearly indicated—a survey which, when made immediately following publication of the report, would indicate the successes and failures of the book, feature by feature, so that the successful elements could be improved and the less successful made better or eliminated.

The average reader has difficulty recalling much of what has been read within a week to 10 days of the time of exposure. This, among other things, was a disadvantage encountered in the pre-annual-report surveys. Therefore the new study was scheduled so that interviews were conducted within a few days of the time of receipt of the annual report.

The survey was made among women stockholders in Cleveland, Buffalo, Philadelphia, Baltimore, and New York. These cities were chosen because there were enough stockholders in each to promise relatively economical interviews.

The most striking general conclusion to be drawn from the study was the importance of related illustration in raising readership of adjoining text. It was found, for instance, that about 20 per cent read through a brief section headed "Dividends" on page six of a 28-page book. This part of the text, though traditionally high in interest value, was unaided by a related illustration of any kind. On the facing page, however, a picture of the retiring chairman of the executive committee of the board of directors attracted attention among 59 per cent, while 33 per cent read the text telling of his retirement directly beneath his picture. This text,

by the way, was twice as long as the "Dividends" story.

One of the most successful features in the entire report from the standpoint of readership was the two-page spread devoted to a picture layout of the directors and principal officers. The photographic portraits and titles of 26 persons were shown. The survey findings with regard to this feature provide convincing evidence of the power of pictures of people to attract and hold sustained interest. About 64 per cent of those interviewed started off at the top

of the two-page spread; at the bottom, 59 per cent were still with it.

Any company that fails to take advantage of the pictorial presentation of its management to its stockholders and employees is miffing an important public relations opportunity.

Incisive research, calculated trial, and open-minded evaluation—that is the cycle that will build results for the company interested in developing better stockholder relations.

By BRUCE WATSON. *Advertising & Selling*, March, 1948, p. 117:7.

INSURANCE...

"Repair or Replace" Insurance

WITHOUT sufficient funds to repair or replace property if destroyed, an industrial organization would cease to function. "Repair or Replace" Insurance is designed to aid management in avoiding such an eventuality.

"Repair or Replace" Insurance is insurance to cover the difference between the actual value of property, with due allowance for depreciation, and replacement cost new. This type of insurance has been written to a limited extent for many years but has aroused wider interest and discussion during the last four years, since the Factory Mutual Companies first offered it generally to policyholders where state laws permitted. There are two fundamentally different forms under which the coverage is written, though both cover the same item of depreciation. One form is commonly known as "Depreciation

Insurance" and the other as "Repair or Replace" or "Replacement Cost" Insurance. The Factory Mutual Companies write only the second of these two forms and designate it as "Repair or Replace Insurance." This discussion will deal primarily with the Factory Mutual form but references will be made also to the "Depreciation" form.

Recovery under Repair or Replace Insurance is limited by the actual expenditure in replacing or repairing on the same or another site with materials of like size, kind, and quality, and by the face value of the policy. If the damaged property is not replaced or repaired, there is no liability for this excess cost. The owner cannot under the rider-endorsement make a profit if he decides not to rebuild.

The main policy is divided into two items:

Item 1—To cover the building(s) and contents excluding stock and supplies.

Item 2—To cover stock and supplies.

The Repair or Replace Insurance provided by the rider-endorsement applies as additional insurance to Item 1. Item 2 of the policy is subject to 100 percent co-insurance, but only if claim is made under the conditions of the Repair or Replace endorsement. The Factory Mutuals do not use the co-insurance clause as standard practice, but it was deemed essential for this additional liability in order to provide adequate premium to pay losses on this higher level of valuation. From the assured's standpoint, the co-insurance clause is not without benefit, since it requires insurance at full replacement value for full recovery. Any amount short of replacement value would not permit replacement of the property from the insurance recovery, and would defeat the purpose for which the coverage was designed. The co-insurance clause carries a waiver with respect to loss claims of less than \$10,000, or less than 5 per cent of the total insurance applicable, whichever is the smaller.

Repair or Replace Insurance is quite different from Depreciation Insurance and produces an entirely different result. Depreciation Insurance does not require the replacement of property; Repair or Replace Insurance does. In the event of loss under Depreciation Insurance, the assured collects in cash a sum representing the depreciation value of the property in addition to its actual value. If he chooses not to rebuild, obviously he has realized a profit. He has suffered no loss unless he is compelled by rebuilding to invest an amount in excess of the insurance recovery on an actual value basis. The requirement for the replacement of the damaged property and the limit of the liability to the actual amount expended,

on the other hand, make it clear that Repair or Replace Insurance is a contract of indemnity.

Repair or Replace Insurance is not a new departure by its assumption of loss liability in excess of the actual value of property, as will be shown by the following examples:

1. *Demolition and Increased Cost of Construction.*—This form of insurance provides for loss payment in excess of the actual value of the property to meet the requirements of any state or municipal law or ordinance regulating the construction or repair of buildings. If a building of second-class construction is 51 per cent destroyed and applicable laws require replacement with first-class construction, the insurance policy by endorsement becomes liable for the actual value, including the cost of demolition, plus the additional cost of reconstruction of the damaged portion to meet the requirements of applicable laws, not exceeding the face value of the policy; if under the same circumstances a smaller portion (less than 51 per cent) of the building is destroyed, the policy becomes liable for the entire cost of reconstruction to comply with applicable laws. In these cases, the insurance recovery exceeds the actual value of the destroyed property.

2. *Use & Occupancy Insurance.*—This form of insurance reimburses the assured for loss of fixed charges and profits resulting from interruption of business or production. It is commonly written by fire companies in all states as an endorsement on the standard fire form. This is certainly assumption of loss liability in excess of the actual value of the property destroyed.

3. *Requirement to Replace Property Under Lease Agreement.*—There are many instances of leased property where the lease contains a provision

that the lessee pay to the lessor any excess in the cost of the repair or restoration of property destroyed by fire over the amount recovered by the lessor's insurance. Here, again, is a risk in addition to the actual value of the property, commonly assumed by fire insurance companies.

4. *All-Risk Cover*.—This form of insurance against fire and all other physical damage to personal property provides that the liability for damage may include deterioration and loss of use.

5. *Valued Policy Law*.—Certain states have established the statutory condition that buildings must be insured for a fixed amount representing the value of the buildings agreed upon between the insurer and the insured when the policy is issued, and providing further that in case of total loss the company shall be liable to pay the face of the policy without diminution, and partial losses in proportion. This obviously ignores completely the principle of indemnity being limited to actual value.

6. *Insurance Option to Replace Property*.—Under the standard fire policy without any rider the insurance company may, within a reasonable time after the loss, replace the property instead of paying the actual cash value. Obviously the insurance company would not be permitted to replace with second-hand materials. Instead of replacing the property itself, suppose the insurance company elects in advance to permit the owner to replace the property at the insurance company's expense. There is no limitation as to the amount to be expended, except the face value of the policy. The obligation undertaken by the terms of the endorsement appears to be within the limit of *expenditure* authorized by the standard fire policy forms. Here, again, there is no deduction for depreciation.

Thus, it can hardly be claimed that this form of insurance is a departure from established principles. It is simply a new application of a principle already established.

By MARSHALL B. DALTON. *The Controller*, January, 1948, p. 18:3.

An Effective Pension and Profit Sharing Program

TO provide assured income for its employees at retirement age, in addition to the pension provided by the old-age security program of the government, Lindberg Engineering Company has two employee benefit plans in operation.

Under the first of these programs, the pension plan, the company pays for annuities for each employee. The costs of these annuities are fixed charges, not dependent upon company earnings or profits. The plan provides that:

- a. After five years of employment, the employee becomes eligible to participate in the pension fund.
- b. At 65 years of age, he will receive annually, in monthly payments, a sum equal to five-eighths of 1 per cent of his annual wages for each of the first five years' service (the period prior to his becoming eligible to pension membership), plus 1 per cent of his annual wage for each succeeding year of service after this five-year period.

Should the employee for any reason not become eligible for this pension program because of discontinuance of service, no payment is made him when he leaves the company's employ.

The second part of the program, the profit sharing plan, is much more complicated in its operating procedure. To participate in this plan, an employee must be in the company's service for three years, and be over 20 years of age.

A trusteeship is set up to administer the funds, and the company pays to the trustees a sum equal to $33\frac{1}{3}$ per cent of its net earnings for each fiscal year, providing these net earnings equal or exceed 10 per cent of the aggregate amount of the capital and surplus of the company at the beginning of each year, and provided the amount contributed by the company does not exceed 15 per cent of the total compensation paid the employee by the company for such year.

Company contributions are allocated and credited on the basis of the ratio of the number of shares each employee holds to the total number of shares held by all employees. A share is al-

located (a) for each \$100 of an employee's wages; and (b) for each service credit acquired by the employee (a service credit being awarded for each year of employment by the company). For example: A man earning \$3,500 per year after six years' employment has 41 shares in the profit-sharing trust.

At the close of each fiscal year, the trustees make a report to each participating employee, showing the employee's share of that year's contribution to the trust.

Funds contributed by the company to the trust may be invested in the following manner:

- a. In authorized, readily marketable securities other than those of the contributing company's obligation.
- b. Retirement income or annuity contract.
- c. The funds may remain uninvested or deposited in a savings bank account with full power of conversion.

From an address by W. C. Thomas before the Scientific Apparatus Makers of America.

Accident Costs Cut 85 Per Cent

COST of accidents dropped from \$1.21 a man to 18 cents in the Thompson Products Company plant after old machinery was painted in accordance with safety recommendations, records kept by the superintendent of maintenance and equipment show. Operators also turned out 10 to 20 per cent more production than when machines were traditional gray or black.

—Modern Industry 2/15/48

• **EMPLOYEES LIKE TO KNOW BASIC REASONS** underlying major changes in corporate structures. Management can go a long way forward in cementing good relations by giving employees a frank, friendly explanation of such reasons. Example: Moore Corporation, Ltd., Toronto, used a sound-movie short as a novel means of telling its 6,500 employees why it recently consolidated nine of its operating units. Picture showed the company president speaking informally from his office and explaining that merger was for purpose of strengthening and expanding the company and that jobs would be more secure than ever. Intimate tone of picture was heightened by shots of company plants and plant managers and by fact that picture was shown to small groups of employees gathered in plant-town theatres and auditoriums.

—Public Relations News

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Survey of Books for Executives

THE DYNAMICS AND THE MECHANICS OF ADMINISTRATION

ADMINISTRATIVE BEHAVIOR. By Herbert A. Simon. The Macmillan Company, New York, 1947. 259 pages. \$4.00.

Reviewed by L. Urwick*

This book carries an appreciative foreword by Chester Barnard: "Professor Simon's abstractions seem sound to me because they express aspects of my experience under a wide variety of conditions. . . . Such experience forms the ground for the belief that abstract principles of structure may be discerned in organizations of great variety, and that ultimately it may be possible to state principles of general organization."

The appraisal is, in part, well founded. Simon has written about administration from the dynamic or "behaviorist" aspect. And any thoughtful and sincere book based on sufficient experience which approaches the subject from this angle is likely to add to knowledge and understanding. But Barnard's hope that "ultimately it may be possible to state principles of general organization" is unlikely to be realized, or realizable, until new entrants to the field abandon the attempt to devise a complete theory of their own, with little reference to or respect for their predecessors, and are content to contribute their individual quota to a body of knowledge which already boasts a respectable heritage.

Whether the subject be called "administration" or "management," it is now more than half a century since the idea of dealing with it inductively was first suggested by Frederick Winslow Taylor. He made it crystal-clear from the beginning that a double approach was essential. What may be called the "dynamics" of the subject is concerned with the will to cooperate of all concerned. On this first aspect he was definite that the scientific knowledge available in his time was inadequate: ". . . there is another type of scientific investigation which should receive special attention, namely the accurate study of the motives which influence men."¹ Secondly, there are the "mechanics" of the subject—the particular methods or systems derived from an inductive approach. He was equally clear that these were, in their details, unimportant. What was important was the mental attitude

of all concerned, "the substitution of exact scientific investigation and knowledge for the old individual judgment or opinion."²

Since Taylor's death, an extensive literature has grown up covering many aspects of the total field. The various branches of psychology have graduated as inductive sciences, though it may be doubted whether we have at present sufficient knowledge of the biochemistry of the nervous system to provide them with an adequate physical foundation. The bearing of sociology and anthropology on economics has been recognized. Recently in the Hawthorne investigations we have had a full-dress attempt to realize Taylor's dream of "an accurate study of the motives which influence men." The samples were very limited for all but some of the less controlled and more generalized of the experiments.³ And a moment's reflection on the extremely fortunate combination of circumstances which made this pioneer and prolonged inquiry possible indicates the enormous amount of work which still remains to be done before the practical administrator can rely on exact knowledge of the standard customary in the physical sciences even about the elementary tools of his trade.

In the meanwhile, however, the practical administrator and manager must continue with their tasks; they cannot avoid administering and managing. As Ortega has written of culture, it is not for them "to stop, with science, at the point where the methods of absolute theoretic rigour happen to end. Life cannot wait until the sciences have explained the universe scientifically. We cannot put off living until we are ready. The most salient characteristic of life is its coerciveness: it is always urgent, 'here and now,' without any possible postponement. Life is fired at us point blank. . . . Science is not something by which we live. If the physicist had to live by the ideas of his science, you may rest assured that he would not be so finicky as to wait for some other investigator

*O.B.E., M.C., M.A., F.I.I.A., C.I.Mech.E., Hon. Associate M.C.T.

¹F. W. Taylor: *The Principles of Scientific Management*, Harper & Brothers, 1929, p. 119.

²For Taylor's considered attitude see the two "essential" conditions "without which scientific management cannot be said to exist in any establishment." (Evidence before the Special Committee of the House of Representatives to investigate the Taylor and other Systems of Shop Management), U. S. Government Printing Office, 1912, quoted by F. B. Copley in *Frederick W. Taylor*, v.i., pp. 9-13.

³The investigations as a whole dealt with but a single situation: one group, the employees of the Western Electric Company's Hawthorne plant.

to complete his research a century or so later. He would renounce the hope of a complete scientific solution, and fill in, with approximate or probable anticipations, what the rigorous corpus of physical doctrine lacks at present and, in part, always will lack."⁴

The important point for the administrator or manager who has responsibilities to face is that "the approximate or probable anticipations" which he must make should be as well founded as possible. That is to say that the knowledge which is available should make sense and be in a form in which he can use it. Viewed from this standpoint, "management" or "administration" does not cut a very good figure. The volume of knowledge available, while large, is markedly ill-organized. The various aspects of these disciplines have neither been clarified and classified nor related to each other. The primary task of clearing up their terminology and attaching defined technical concepts to the words commonly employed has hardly as yet been begun. These tasks are very much overdue.

The prospects of some attack on these problems are not advanced by writers who start out, as Simon has avowedly done, not to reinforce the existing corpus of knowledge but to develop an entirely new arrangement of their own. "The currently accepted 'principles of administration,'" he writes, "are little more than ambiguous and mutually contradictory proverbs, and a new approach was needed to establish a consistent and useful administrative theory."⁵ The positive side of this claim has some foundation. It is of importance that more study be devoted to the dynamics of management, the description of administrative process in action. His chapters on "Communication" and "Organization Identification" are admirable and valuable.

The following quotation is an excellent general statement of the truth about "staff" work in army organization, which was one of the central points in the reviewer's "Organization as a Technical Problem."⁶ This truth has been obscured by the dual connotation attached to the term "staff" in American military parlance, a fact which is responsible for much of the confused writing about "staff and line."

The delegation by the executive to his staff of the function of liaison with subordinates or with other organization units creates somewhat more delicate problems than the other two types of delegation. Unless the relationships are carefully defined, the subordinates of the executive may fail to recognize that the liaison officer is exercising authority not on his own initiative, but as representative of his chief. As a result

of this ambiguity, considerable resentment may develop against the liaison officer and he may lose his usefulness. In many civilian organizations the distinction between an assistant department head and an assistant to the department head is not clearly understood, and such organizations would do well to observe the care with which this distinction is made in military organization.⁷

But to describe this emphasis on the dynamic aspect of administration as "a new approach" is not a defensible claim. The basis of Simon's whole theory is that administration is a "decisional process." "It should be perfectly apparent that almost no decision made in an organization is the task of a single individual. . . .⁸ An analysis of almost any decision of a member of a formal organization would reveal that the decision is responsive to a very complex structure of influence."⁹ The dynamic approach to administrative problems was suggested with immense force and insight more than 20 years ago by the late Mary Parker Follett. The sentences quoted say no more than her memorable phrase, "A decision is only a moment in a process." The book contains no reference to her work whatever, yet she enjoyed an international reputation in Simon's own chosen field of political science.

The chapter which deals with the negative side of his claim under the title of "Some Problems of Administrative Theory" is difficult to criticize adequately within the limits of a review. The reviewer's *Elements of Administration*¹⁰ is referred to in a footnote as "a systematic exposition of the currently accepted 'principles'" side by side with *Papers on the Science of Administration*, which he assisted Luther Gulick to compile, largely from papers used by the President's Committee on Administrative Management.¹¹ The latter collection contained papers by Mary Parker Follett, Henri Fayol (who is also ignored), and J. D. Mooney (who is mentioned once, but without any reference to his ideas).

However, uncertainty as to the date and source of the alleged "proverbs" is unimportant. Simon restates them in his own words: "Among the more common 'principles' that occur in the literature of administration are these: 1. Administrative efficiency is increased by a specialization of the task among the group."¹² (For 2 and 3, substitute *unity of command* and *the span of control* for *specialization*. For 4, he uses the same wording and then lists some of the recognized methods of subdividing activities.) The general answer can be put briefly. Simon no-

⁴ José Ortega y Gasset: *Mission of the University*, Kegan Paul, Trench, Trubner & Co., Ltd., London, 1946, p. 66.

⁵ p. 240.

⁶ In *Papers on the Science of Administration*, Ed. Luther Gulick and L. Urwick.

⁷ p. 166.

⁸ p. 220.

⁹ p. 224.

¹⁰ Sir Isaac Pitman & Sons, Ltd., London, 1945.

¹¹ 1933.

¹² p. 20.

where defines what he means by a "principle": he appears to use the term as a synonym for a "law."¹² Neither does he distinguish between principles and methods. Nowhere in either of the books mentioned are any principles stated in the terms he has employed. What both books discuss, *inter alia*, are the principles of formal organization. But organization is only one aspect of administration. And the whole sense of the argument is destroyed by the prefix "Administrative efficiency is increased by," which is Simon's own invention.

It is tempting to analyze some of the author's detailed arguments, for instance: "Specialization merely means that different persons are doing different things—and since it is physically impossible for two persons to be doing the same thing in the same place at the same time, two persons are always doing different things."¹⁴ This is simply an incorrect definition of the term *specialization*. If the reviewer's memory is correct, one of the characters of modern American fiction was "The Specialist," who was famous for constructing apparatus which enabled two persons to do the same thing at the same place at the same time. Or again: "Proponents of a restricted span of control have suggested three, five, even eleven, as suitable numbers, but nowhere have they explained the reasoning which led them to the particular number they selected."¹⁵ That is simply untrue. The reviewer has stated the upper limit of numbers repeatedly: "... five or, at the most, six subordinates whose work interlocks."¹⁶ The reasoning underlying this figure has been published in A. V. Graicunas' "Relationship in Organization."¹⁷

But since most of this chapter appears to be an attack on Luther Gulick, it is perhaps permissible to compare two quotations. The first is drawn from Simon's penultimate chapter:

If we study the chain of publications extending from Mooney and Reiley through Gulick, the President's Committee controversy, to Schuyler Wallace and Benson, we see a steady shift of emphasis from the "principles of administration" themselves to a study of the *conditions* under which competing principles are respectively applicable.¹⁸

The second is taken from Luther Gulick's "Science, Values and Public Adminis-

tration,"¹⁹ written some 12 years earlier:

The student of administration must take into account the conditions under which a group of men are brought together to do a job.

In fact, Simon himself admits that all this criticism really turns on the meaning to be assigned to the term "principle." "The difficulty has arisen from treating as 'principles of administration,' what are really only criteria for describing and diagnosing administrative situations. . . . Unity of command, specialization by purpose, decentralization, all are items to be considered in the design of an efficient administrative organization. No single one of these items is of sufficient importance to suffice as a guiding principle for the administrative analyst. In the design of administrative organizations, as in their operation, over-all efficiency must be the guiding criterion. Mutually incompatible advantages must be balanced against each other, just as the architect weighs the advantage of additional closet space against the advantages of a larger living room."²⁰

As has already been pointed out, the "principles" which Simon discusses are not, and have not been stated as, principles of general administration. They are principles of formal organization. And no serious student of the subject has ever suggested, even in dealing with formal organization, that any one of them could be isolated and applied to the exclusion of the others. "The art of organization consists in determining the correct method to apply at each point and to each aspect of an undertaking, and so to build up a structure in which the method or methods used at each point and the degree to which they are used result in the balance which is most effective for the purpose of the undertaking."²¹

Where the reviewer differs from Simon is in the implication that the principles of organization are incompatible and that the question of whether some or any of them can be ignored is a purely empirical issue. The eight general principles of formal organization are universal. *All* of them must be applied in any but the very simplest forms of organization. "Together they constitute as it were a templet which can be applied to any organizational situation. The infraction of any of them implies overt or latent trouble."²² The contradiction between, for instance, specialization and unity of command is apparent and verbal, not actual. It is perfectly possible to arrange for a high degree of specialization and at the same time to observe the

¹² For a full discussion of the distinction between laws, principles, and methods, see the reviewer's "Principles of Direction and Control" in *Dictionary of Industrial Administration*, Pitman, London, 1928.

¹⁴ p. 22.

¹⁵ p. 28.

¹⁶ Vide "Scientific Principles and Organization," *Institute of Management Series No. 19*, American Management Association, 1938, p. 8; *Elements of Administration*, pp. 52 and 53.

¹⁷ In "Papers on the Science of Administration."

¹⁸ p. 240.

¹⁹ V. "Papers on the Science of Administration," p. 193.

²⁰ p. 36.

²¹ L. Urwick: *Elements of Administration*, p. 68.

²² "Scientific Principles and Organization," p. 8.

scalar principle. Both are essential. To pursue Simon's analogy, it is fundamental to the idea of a well-designed house that it should have both a closet and a living room. To forego the former because of a passion for *Lebensraum* is unsanitary; to sacrifice the latter and to live in one's closet is eccentric.

Equally, no serious student of administration imagines that formal organization is the whole story. Organization is but one of the six aspects of administration; administration is only one of the six functions of government. Indeed, in discussing unity of command Simon suggests that he is inclined, as are many whose experience is predominantly in public administration, to overemphasize the importance of formal "channels of communication." He writes: "If the training officer of a city exercises only functional supervision over the police training officer, then in case of disagreement with the police chief specialized knowledge of police problems will determine the outcome while specialized knowledge of training problems will be subordinated or ignored."²² And again: "In a large organization with inter-relations between members, a restricted span of control inevitably produces excessive red tape, for each contact between organization members must be carried upward until a common superior is found."²⁴

The first statement makes a number of assumptions, none of which is characteristic of effective organization. First, that the police chief is a policeman first and a chief second: he will necessarily take a departmental standpoint and support the police training officer; he will not envisage it as his primary duty to "integrate" the two points of view. Second, that the police chief is indifferent to the fact that higher authority in appointing a city training officer did so with the intention that his specialized knowledge should be used and not ignored. Third, that there is no "line" authority superior to the police chief to whom the city training officer can appeal—a manifest weakness in higher executive coordination.

Similarly, the second statement appears to assume that all contacts between organization members must follow "the official channels." It is the reviewer's experience that in an organization which is working well "the official channels" become quite secondary. They are essential for purposes of record and as an "escape" when personal relations falter. But to have to resort to them rather than quick personal contacts is a symptom that the individual or individuals concerned have failed in their duty to maintain mutual confidence and friendliness. Again reverting to Simon's analogy, "official channels" are as necessary

as a closet in a house: but it is not consequently essential to live in the closet.

Indeed, Simon, apparently unwittingly, states the whole case for "unity of command" in another connection. "Centralization," he writes, "leaves idle and unused the powerful coordinative capacity of the human nervous system, and substitutes for it an impersonal coordinative mechanism."²³ Precisely; men and women are allergic to being ruled by systems. They must have leadership—which is why at every level in the hierarchy there must be someone whose duty it is to lead, to supply "the powerful coordinative mechanism of the human nervous system." And leadership implies representation of the central purpose of the undertaking, not of some departmental or specialized objective. The way to avoid "red tape" is not to overstrain the span of control of executives, but to ensure that throughout the undertaking there are individuals with the authority and the breadth of outlook to cut it out.

Simon has been reviewed at some length because his chapters are a valuable contribution to the study of administration from the operational standpoint. His central thesis, however, that "an understanding of [the] underlying conditions for the applicability of administrative principles is to be obtained from an analysis of the administrative process in terms of decisions"²⁵ goes too far. Decisional processes are only one aspect of a very wide field, just as formal organization is but another aspect. And the author's apparent anxiety to claim an exclusive right of way for his own approach has betrayed him into a lack of intellectual generosity toward other workers in the subject.

This weakness seems to derive from two main causes which are of more general interest. Because "management" was first developed most conspicuously by engineers, there was initially a concentration of interest and research on the "mechanics" of the subject. This does not mean that the engineers were indifferent to its "dynamics." It was merely the natural consequence of the bias imparted by their special training and of the fact that very dramatic and "practical" results could be secured, particularly in the early stages, by concentrating inductive method purely on the "mechanics." They were aware that complete scientific accuracy was not to be expected from the comparatively new disciplines, such as psychology, which bore on the "dynamics." As has already been emphasized, however, F. W. Taylor himself was fully alive from the beginning to the dual nature of the problem.

Those who have entered the field later with training in other disciplines have concentrated attention on the "dynamics"—the human as-

²² p. 26.
²⁴ p. 28.

²³ p. 240.
²⁵ p. 240.

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pect. Simon writes: "The construction of an efficient administrative organization is a problem in social psychology."²¹ This is true, and the tendency to redress the balance is healthy—but to try to tip it in the other direction is not. And some, certainly, of the newcomers have been inclined to suggest that the earlier students of management were unaware of the fact that they were dealing with human beings. Excited by the fascinating accounts of the Hawthorne investigations, they have assumed rather loftily that everything written on the mechanics of the problem was outmoded and unscientific.²² The effect of this attitude is not to advance knowledge but to retard it. It merely confuses the minds of practical administrators who have, as has been pointed out, to go on administering.

In fact, both lines of approach are essential. To attempt to scrap the knowledge of the "mechanics" of management already gained by half a century of work in all parts of the world, because it is incomplete and needs supplementing by further study of the "dynamics," is merely wasteful.

Much of this tendency seems to derive from an incorrect appreciation of the nature of the field as a whole. Simon reverts repeatedly to the possibility of a "science of administration." And he concludes his book with a suggestion that there may be two forms of administrative science—a sociology or descriptive form and a "practical." "These two alternative forms of administrative science are exactly analogous to the two forms which economic science takes."²³ But at an earlier stage he makes use of organization and does not attempt to prescribe for the practical ills of organization. "Its field is organizational biology, rather than medicine; and its only claim of contribution to the practical problems of administration is that sound medical practice can only be founded on thorough knowledge of the biology of the organism. . . . The anatomy of the organization is to be found in the distribution and allocation of decision-making functions. The physiology of the organization is to be found in the processes whereby the organization influences the decisions of each of its members—supplying these decisions with their premises."²⁴

It is the reviewer's opinion that the medical analogy is the only one that is valid. Management or administration deals with human beings in purposeful relationships. Any system of human cooperation is a living thing. The first syllable of *management* is *man*. The only other "discipline" which partakes

of this salient characteristic is medicine. But once we admit this parallel, any talk or thought of a science of administration becomes nonsense. Medicine is a practical art resting on a whole range of underlying sciences and applying their findings to the task of the prevention and cure of disease in the scientific temper and spirit. Man, even as an individual, is far too complex and intricate an organism for all that there is to be known about him to be organized as a single subject. In fact, the discrete sciences underlying medicine are very numerous, and they tend to multiply.

Still more is it futile to attempt to include man in his organized social relationships within the boundaries of a single science. We should recognize that such phrases as "scientific management," "the science of administration," and so on, were never intended to imply that this was possible. They referred to the application of inductive reasoning, the scientific intellectual methodology, to a field which had hitherto been the unchallenged domain of empiricism. They did not contemplate that such application would yield a single body of knowledge.

If this were once accepted, many advantages would follow. It would become possible to set about analyzing and organizing the knowledge we already possess in a systematic and comprehensive way so that it would be far more useful to the practical administrator. We should be able more readily to assimilate new knowledge into the common pattern. The terminology could be clarified, instead of plunging ever more deeply into inextricable confusion because every individual either adopts common usages which achieve the maximum of imprecision through an infinite variety of connotations or coins his own definitions which everyone else refuses to use, even when discussing the inventor's own writings.

Above all, every newcomer to the field would not find it necessary to devise a comprehensive system of his own and, in defense of its unique originality, to throw doubt on the work of those who have taken a different approach to the same material. Simon's analogy, for instance, would be further refined. He would no longer claim that "the anatomy of the organization is to be found in the distribution and allocation of decision-making functions" and nowhere else. He would recognize that the anatomy of the human body is not comprehended in a description of the bone structure or of the muscular or nervous systems, or of the respiratory, circulatory, or genital organs, but in a combination of all these branches of study with a number of others. In short, we should all be in less of a hurry and more ready to recognize that the ways of science are long.

It is more than four centuries since men

²¹ p. 2.

²² Cf. Robert A. Dahl: "The Science of Public Administration—Three Problems" in *Public Administration Review*, v. iii, No. 1. This is a particularly glaring example of this assumption.

²³ p. 253.

²⁴ p. 220.

began to realize that apprenticeship to a barber was an inadequate preparation for the practice of surgery—much longer since the possibility of an inductive approach to medical problems was first envisaged. Yet, even today, despite the accumulated discoveries and the refinements of skill of modern medicine, the undiscovered country is still immense. What even the greatest of practitioners do not know is much more curious than what they do know. It is little more than half a century since similar processes of thought were first applied to the infinitely more complex field of management and administration, a field in which scientific certainty even as to the cells of the organism, the individual member of any system of co-operation, is unthinkable, until psychology, psychopathology, and similar studies have made immense advances. It is idle to imagine that we are anywhere but at the earliest stages of a journey stretching far into the future. Many individuals of genius and near-genius must make their contribution to research, to experiment, to synthesis before even the beginnings of an adequate "discipline" will emerge. The vast majority, as in the evolution of medicine, will be quickly forgotten.

But the immediate needs of our society are urgent. As Elton Mayo has emphasized, "collaboration in an industrial society cannot be left to chance."²¹ We have in fact passed beyond that stage of human organization in which effective communication and collabora-

²¹ *The Social Problems of an Industrial Civilization*, Harvard University Press, 1945, p. 9.

tion were secured by established routines of relationship.²² If our social skill had advanced step by step with our technical skills, "there would not have been another European war."²³ Even the fragmentary knowledge we do possess is infinitely more effective than reliance on rule of thumb and power politics. The practical need is to secure its application, to persuade administrators and managers to take the first step from empiricism to the conscious application of systematic thought. This need is particularly pressing in the field of government both in Great Britain and in the United States. As one of America's best-known administrators has put it, "this failure to recognize the importance of the principles of modern management in public affairs may bring upon us the gravest consequences in the near future."²⁴

That is why it is important that the field of management knowledge should be more clearly organized and why those dealing with problems of administration should hesitate before trying to discredit such principles as have already been established.

²² *Ibid.*, p. 13.

²³ *Ibid.*, p. 23.

²⁴ David L. Lilienthal: *T.V.A.—Democracy on the March*, Penguin Books, p. 145.

CORRECTION: Through a typographical error, the name of one of the co-authors of the recent Prentice-Hall text, *Job Evaluation—A Basis for Sound Wage Administration*, was misspelled in the March issue of the REVIEW. The authors of this excellent handbook are Jay L. Otis and Richard H. Leukart.

BRIEFER BOOK NOTES

[Please order books directly from publishers]

MEN AT WORK: *The Supervisor and His People*. By Kieve Brodman. Cloud, Inc., Chicago, 1947. 191 pages. \$2.50. Inspired through his association with the Cornell-Caterpillar Program—a project devoted to the improvement of human relations in industry—Dr. Brodman gives us Joe, The Foreman. Tactful, thoughtful, tolerant Joe is a composite of the many capable persons in supervisory positions who are trying to gain a better understanding of their Men at Work and thus be able to help them to a better understanding of themselves.

INTERNATIONAL TRADE: *Tariff and Commercial Policies*. By A. Isaacs. Richard D. Irwin, Inc., Chicago, 1948. 838 pages. \$6.00. Though written primarily as a textbook for college and university courses in international trade, this work contains a wealth of material of interest to business men concerned with foreign markets and to others who desire information about the various aspects of international trade. Covers the history and theory of international trade, tariff policies of the United States, tariff and commercial policies in Europe and Asia, tariff and commercial policies in the Western Hemisphere, problems and resulting policies of international trade.

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